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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for November 1999

### Budgetary deficit of \$292 million in November 1999

There was a budgetary deficit of \$292 million in November 1999, compared to a surplus of \$448 million in November 1998. Budgetary revenues were down \$207 million (1.7 per cent), primarily reflecting lower employment insurance (EI) premium revenues and excise taxes and duties. Program spending was up \$447 million (5.3 per cent), largely attributable to increased transfers to other levels of government and defence spending, while public debt charges increased \$86 million (2.4 per cent), reflecting an increase in the stock of interest-bearing debt.

#### Within budgetary revenues:

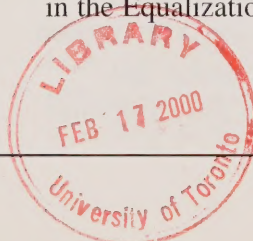
- Personal income tax revenues were down 1.3 per cent. This was attributable to transfers to the Canada Pension Plan Account for underpayments relating to previous months and to corporate income tax revenues, due to a misallocation of revenues in previous months. Excluding these one-time factors, personal income tax revenues would have been higher, reflecting increases in the number of people employed.
- Corporate income tax revenues increased 23.3 per cent. However, most of this gain was attributable to a transfer from personal income taxes, as noted above.
- EI premium revenues were down 8.0 per cent, as a reduction in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of

insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.

- Excise taxes and duties were down 8.1 per cent. Net goods and services tax (GST) revenues declined 5.4 per cent, reflecting an increase in refunds and rebates. Customs import duties declined by 9.9 per cent, following a year-over-year decline of 10.0 per cent in October 1999. Other excise taxes and duties were down 15.7 per cent, primarily attributable to the elimination of Air Transportation Tax.
- Non-tax revenues declined 25.8 per cent. This component is very volatile on a monthly basis, reflecting the timing of receipts.

#### Within program spending:

- Major transfers to persons were up 0.9 per cent. Elderly benefits advanced 3.2 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits declined 3.5 per cent, reflecting the continued improvement in labour market conditions.
- Major transfers to other levels of government were up 8.8 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	November		April to November	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	12,526	12,319	101,229	103,420
Program spending	-8,481	-8,928	-65,810	-68,065
Operating surplus	4,045	3,391	35,419	35,355
Public debt charges	-3,597	-3,683	-27,496	-27,486
Budgetary balance (deficit/surplus)	448	-292	7,923	7,869
<b>Non-budgetary transactions</b>	2,281	2,328	-615	-844
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,729	2,036	7,308	7,025
<b>Foreign exchange transactions</b>	-6,363	-3,320	-825	-4,183
<b>Net financial balance</b>	-3,634	-1,284	6,483	2,842
<b>Net change in borrowings</b>	3,339	6,362	-15,068	-555
<b>Net change in cash balances</b>	-295	5,078	-8,585	2,287

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Direct program spending increased by 6.9 per cent. Subsidies and other transfers were down 11.2 per cent, while payments to Crown corporations increased 15.8 per cent. The year-over-year changes in these components primarily reflect the timing of payments. Operating and capital expenditures increased by 15.0 per cent, primarily reflecting higher defence spending in meeting Canada's international peacekeeping commitments.

### Year-to-date: budgetary surplus of \$7.9 billion

Over the first eight months of fiscal year 1999-2000, the budgetary surplus was estimated at \$7.9 billion, down \$54 million from the surplus recorded in the same period of 1998-99. Based on previous years' experience, and including the impact of the tax relief measures

announced in the February 1999 budget and the recently announced reduction in EI premium rates from \$2.55 to \$2.40 (employee rate per \$100 of insurable earnings) effective January 1, 2000, the budgetary surplus should increase in December but then decline in the final quarter of the fiscal year. As indicated in *The Economic and Fiscal Update*, in the absence of any additional policy measures, the underlying budgetary balance, based on the average of the private sector forecasts, is estimated at \$5.0 billion for the year as a whole. Of this amount, \$3.0 billion is earmarked for the Contingency Reserve, which if not needed, will be used to pay down the public debt.

Budgetary revenues were up \$2.2 billion, or 2.2 per cent, on a year-over-year basis, as higher personal income tax and GST revenues more than offset declines in most of the other major revenue components.



Table 2

## Budgetary revenues

	November		Change	April to November		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Income taxes</b>						
Personal income tax	5,958	5,878	-1.3	48,980	51,239	4.6
Corporate income tax	1,526	1,881	23.3	12,167	11,529	-5.2
Other income tax revenue	173	183	5.8	1,556	1,882	21.0
Total income tax	7,657	7,942	3.7	62,703	64,650	3.1
<b>Employment insurance premium revenues</b>	1,194	1,098	-8.0	12,938	12,332	-4.7
<b>Excise taxes and duties</b>						
Goods and services tax	2,222	2,101	-5.4	14,355	15,708	9.4
Customs import duties	172	155	-9.9	1,652	1,535	-7.1
Sales and excise taxes	719	606	-15.7	5,827	5,516	-5.3
Total excise taxes and duties	3,113	2,862	-8.1	21,834	22,759	4.2
<b>Total tax revenues</b>	11,964	11,902	-0.5	97,475	99,741	2.3
<b>Non-tax revenues</b>	562	417	-25.8	3,754	3,679	-2.0
<b>Total budgetary revenues</b>	12,526	12,319	-1.7	101,229	103,420	2.2

- Personal income tax collections were up \$2.3 billion, or 4.6 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.
- Corporate income tax revenues were down \$0.6 billion, or 5.2 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were down \$0.6 billion, or 4.7 per cent, as the decline in EI premium rates and adjustments related to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$0.9 billion, or 4.2 per cent. Net GST collections were up \$1.4 billion, or 9.4 per cent, attributable to the strong gains in those goods and services subject to the GST. Customs import duties were down 7.1 per cent. Sales and excise taxes and duties were down 5.3 per cent, in part attributable to the elimination of the Air Transportation Tax, effective November 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down 2.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	November		Change	April to November		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,899	1,959	3.2	15,084	15,407	2.1
Employment insurance benefits	944	911	-3.5	7,054	6,880	-2.5
Total	2,843	2,870	0.9	22,138	22,287	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	8,333	8,333	0.0
Fiscal transfers	828	975	17.8	6,355	7,056	11.0
Alternative Payments for Standing Programs	-189	-188	-0.5	-1,494	-1,501	0.5
Total	1,681	1,829	8.8	13,194	13,888	5.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	106	119	12.3	394	434	10.2
Foreign Affairs	19	118	521.1	784	939	19.8
Health	91	64	-29.7	651	651	0.0
Human Resources Development	113	120	6.2	1,091	986	-9.6
Indian and Northern Development	272	269	-1.1	2,723	2,783	2.2
Industry and Regional Development	120	108	-10.0	881	844	-4.2
Veterans Affairs	115	116	0.9	910	921	1.2
Other	398	182	-54.3	1,593	1,330	-16.5
Total	1,234	1,096	-11.2	9,027	8,888	-1.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	80	0.0	585	565	-3.4
Canada Mortgage and Housing Corporation	143	150	4.9	1,145	1,195	4.4
Other	69	108	56.5	650	701	7.8
Total	292	338	15.8	2,380	2,461	3.4
Operating and capital expenditures						
Defence	748	1,031	37.8	5,975	6,624	10.9
All other departmental expenditures	1,683	1,764	4.8	13,096	13,917	6.3
Total	2,431	2,795	15.0	19,071	20,541	7.7
Total direct program spending	3,957	4,229	6.9	30,478	31,890	4.6
<b>Total program expenditures</b>	8,481	8,928	5.3	65,810	68,065	3.4
<b>Public debt charges</b>	3,597	3,683	2.4	27,496	27,486	0.0
<b>Total budgetary expenditures</b>	12,078	12,611	4.4	93,306	95,551	2.4
Memorandum item:						
Total transfers	5,758	5,795	0.6	44,359	45,063	1.6

Program spending increased by \$2.3 billion, or 3.4 per cent, in the April to November 1999 period, compared to the same period of 1998.

- Major transfers to persons were up 0.7 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits reflected an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government were up \$0.7 billion, or 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$1.4 billion, or 4.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were virtually unchanged from year-earlier levels, as a slight decline in the average effective interest rate offset the impact of an increase in the stock of interest-bearing debt.

## **Year-to-date: financial surplus of \$7.0 billion (excluding foreign exchange transactions)**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$0.8 billion in the first eight months of 1999-2000, up slightly from the net requirement of \$0.6 billion in the first eight months of 1998-99. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$7.0 billion in the April to November 1999 period, down slightly from the \$7.3-billion surplus recorded in the same period of 1998.



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Table 4

## The budgetary balance and financial requirements/surplus

	November		April to November	
	1998	1999	1998-99	1999-00
(millions of dollars)				
<b>Budgetary balance (deficit/surplus)</b>	448	-292	7,923	7,869
<b>Loans, investments and advances</b>				
Crown corporations	141	41	891	230
Other	-26	13	-463	-61
<b>Total</b>	115	54	428	169
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-593	463	349	695
Superannuation accounts	322	394	2,533	3,171
Other	-10	1	45	-124
<b>Total</b>	-281	858	2,927	3,742
<b>Other transactions</b>	2,447	1,416	-3,970	-4,755
<b>Total non-budgetary transactions</b>	2,281	2,328	-615	-844
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,729	2,036	7,308	7,025
<b>Foreign exchange transactions</b>	-6,363	-3,320	-825	-4,183
<b>Net financial balance</b>	-3,634	-1,284	6,483	2,842

Table 5

## Net financial balance and net borrowings

	November		April to November	
	1998	1999	1998-99	1999-00
(millions of dollars)				
<b>Net financial balance</b>	-3,634	-1,284	6,483	2,842
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-1,100	4,900	1,831	6,867
Canada Savings Bonds	290	364	-2,197	-681
Treasury bills	-500	-400	-26,100	-4,050
Other	362	-543	1,281	-242
<b>Subtotal</b>	-948	4,321	-25,185	1,894
Less: Government's holding of unmatured debt	-415	-397	151	-39
<b>Total</b>	-1,363	3,924	-25,034	1,855
Payable in foreign currencies				
Marketable bonds	4,838	2,942	9,226	2,527
Notes and loans	-	-	-	-
Canada bills	-136	-504	1,687	-4,681
Canada notes	-	-	-947	-256
<b>Total</b>	4,702	2,438	9,966	-2,410
<b>Net change in borrowings</b>	3,339	6,362	-15,068	-555
<b>Change in cash balance</b>	-295	5,078	-8,585	2,287

## **Year-to-date: net financial surplus of \$2.8 billion (including foreign exchange transactions)**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$4.2 billion in the April to November 1999 period, compared to a net requirement of \$0.8 billion in the same period of 1998.

With a budgetary surplus of \$7.9 billion, a net requirement of \$0.8 billion from non-budgetary transactions and a net requirement of \$4.2 billion from foreign exchange transactions, there was a net financial surplus of \$2.8 billion in the April to November 1999 period, compared to a net surplus of \$6.5 billion in the same period of 1998.

In November 1999, there was a net increase in market borrowings of \$6.4 billion, with the result that there has been a retirement of only \$0.6 billion of market debt to the end of November 1999. The increase in market borrowings in November was attributable to an increase in Canada's official international reserves, a buildup of cash to repay maturities in early December and the impact of precautionary measures related to end-of-year considerations. As a result, there was a net increase in cash balances of \$2.3 billion, bringing cash balances at the end of November 1999 to \$11.6 billion.



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Table 6

## Condensed statement of assets and liabilities

	March 31, 1999	November 30, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,202	-5,307
Interest and matured debt	9,791	5,075	-4,716
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	35,293	-10,023
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	125,579	3,172
Canada Pension Plan (net of securities)	5,427	6,122	695
Other pension and other accounts	6,724	6,598	-126
Total pension and other accounts	134,558	138,299	3,741
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,626	6,874
Treasury bills	96,950	92,900	-4,050
Canada Savings Bonds	27,662	26,935	-727
Other	4,063	3,821	-242
Subtotal	424,427	426,282	1,855
Payable in foreign currencies			
Marketable bonds	23,907	26,434	2,527
Canada bills	10,230	5,549	-4,681
Canada notes	1,863	1,607	-256
Subtotal	36,000	33,590	-2,410
Total unmaturred debt	460,427	459,872	-555
Total interest-bearing debt	594,985	598,171	3,186
Total liabilities	640,301	633,464	-6,837
<b>Assets</b>			
Cash and accounts receivable	15,273	12,292	-2,981
Foreign exchange accounts	34,668	38,850	4,182
Loans, investments and advances (net of allowances)	13,536	13,367	-169
Total assets	63,477	64,509	1,032
<b>Accumulated deficit (net public debt)</b>	576,824	568,955	-7,869

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January 2000



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for December 1999

### Budgetary surplus of \$3.1 billion in December 1999

There was a budgetary surplus of \$3.1 billion in December 1999, up \$0.6 billion from the surplus recorded in December 1998. As noted in last month's *Fiscal Monitor*, a large surplus was expected in December. Budgetary revenues are typically highest in the final month of each quarter, reflecting remittances from quarterly personal income tax filers. In addition, December marks the settlement period for corporations whose financial year ends on October 31, primarily financial institutions.

- Budgetary revenues were up \$1.5 billion, or 10.3 per cent, primarily attributable to higher corporate income tax revenues, which were up \$0.9 billion, or 54 per cent. Corporate profits rebounded strongly in 1999, following general weakness in 1998. Personal income tax revenues were up \$0.3 billion, or 4.2 per cent, primarily reflecting increases in the number of people employed. Employment insurance (EI) premium revenues were lower due to the reduction in premium rates, while higher refunds depressed goods and services tax (GST) revenues.
- Program spending increased \$1.1 billion, or 12.4 per cent, with most of the increase attributable to higher operating and capital expenditures.
- Public debt declined \$0.2 billion, or 6.3 per cent, primarily reflecting adjustments pertaining to previous months.

### Year-to-date: budgetary surplus of \$10.9 billion

Over the first three quarters of fiscal year 1999-2000, the budgetary surplus was estimated at \$10.9 billion, up \$0.6 billion from the surplus recorded in the same period of 1998-99. Monthly deficits are expected in the final quarter of 1999-2000. Revenues are typically depressed in January due to the payment of the GST quarterly credit and refunds. Personal income tax refunds pertaining to the processing of 1999 tax returns will serve to depress revenues in March 2000. The impact of the tax relief measures announced in the February 1999 budget and the recently announced reduction in EI premium rates from \$2.55 to \$2.40 (employee rate per \$100 of insurable earnings) effective January 1, 2000, will also dampen budgetary revenues in the final quarter of the year. In addition, the timing of revenues and spending at year end, including the impact of spending initiatives announced before the 2000 budget, will also serve to reduce the budgetary balance. These factors are expected to reduce the surplus to date by about \$3.4 billion.

In addition to these factors, the policy initiatives proposed in the 2000 budget will reduce the reported surplus to date by an additional \$4.5 billion. Allowing for the \$3-billion Contingency Reserve results in a balanced budget. To the extent that the Contingency Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 2000*.





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	14,782	16,299	116,011	119,719
Program spending	-8,789	-9,880	-74,599	-77,945
Operating surplus	5,993	6,419	41,412	41,774
Public debt charges	-3,562	-3,339	-31,058	-30,825
Budgetary balance (deficit/surplus)	2,431	3,080	10,354	10,949
<b>Non-budgetary transactions</b>	-2,668	-4,512	-3,283	-5,355
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-237	-1,432	7,071	5,594
<b>Foreign exchange transactions</b>	4,219	3,875	3,394	-308
<b>Net financial balance</b>	3,982	2,443	10,465	5,286
<b>Net change in borrowings</b>	3,446	-50	-11,623	-603
<b>Net change in cash balances</b>	7,428	2,393	-1,158	4,683

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Over the first nine months of 1999-2000, budgetary revenues were up \$3.7 billion, or 3.2 per cent, on a year-over-year basis.

- Personal income tax revenues were up \$2.6 billion, or 4.5 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds relating to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.
- Corporate income tax revenues were up \$0.3 billion, or 2.0 per cent. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds relating to

overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000. The February 2000 budget projects a strong pickup in corporate income tax revenue over the final months of the fiscal year, as corporations file their settlement payments for taxation year 1999.

- EI premium revenues were down \$0.7 billion, or 4.9 per cent, as the decline in EI premium rates and adjustments relating to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.0 billion, or 4.1 per cent. Net GST collections were up \$1.3 billion, or 8.0 per cent, due to the strong gains in those goods and services subject to the GST. However, the timing of refunds

Table 2

## Budgetary revenues

	December			April to December		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)			(millions of dollars)		
			(%)			(%)
<b>Income taxes</b>						
Personal income tax	8,122	8,460	4.2	57,102	59,699	4.5
Corporate income tax	1,695	2,610	54.0	13,863	14,140	2.0
Other income tax revenue	165	291	76.4	1,721	2,173	26.3
Total income tax	9,982	11,361	13.8	72,686	76,012	4.6
<b>Employment insurance premium revenues</b>	1,055	980	-7.1	13,993	13,312	-4.9
<b>Excise taxes and duties</b>						
Goods and services tax	1,993	1,945	-2.4	16,348	17,653	8.0
Customs import duties	166	230	38.6	1,818	1,765	-2.9
Sales and excise taxes	595	665	11.8	6,420	6,182	-3.7
Total excise taxes and duties	2,754	2,840	3.1	24,586	25,600	4.1
<b>Total tax revenues</b>	13,791	15,181	10.1	111,265	114,924	3.3
<b>Non-tax revenues</b>	991	1,118	12.8	4,746	4,795	1.0
<b>Total budgetary revenues</b>	14,782	16,299	10.3	116,011	119,719	3.2

should depress revenues over the balance of the fiscal year. Customs import duties were down 2.9 per cent. Sales and excise taxes and duties declined 3.7 per cent, primarily attributable to the elimination of the Air Transportation Tax, effective November 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up 1.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$3.3 billion, or 4.5 per cent, in the April to December 1999 period, compared to the same period of 1998.

- Major transfers to persons were up 0.7 per cent, as higher elderly benefit payments more than offset a decline in

EI benefits. The increase in elderly benefits reflected an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.

- Major transfers to other levels of government were up \$0.8 billion, or 5.7 per cent, reflecting much higher fiscal transfers, most notably for Equalization. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.



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Table 3

## Budgetary expenditures

	December			April to December		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,923	2,007	4.4	17,008	17,414	2.4
Employment insurance benefits	1,047	1,000	-4.5	8,101	7,880	-2.7
Total	2,970	3,007	1.2	25,109	25,294	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	9,375	9,375	0.0
Fiscal transfers	828	975	17.8	7,184	8,032	11.8
Alternative Payments for Standing Programs	-187	-188	0.5	-1,681	-1,688	0.4
Total	1,683	1,829	8.7	14,878	15,719	5.7
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	79	96	21.5	474	529	11.6
Foreign Affairs	203	113	-44.3	987	1,052	6.6
Health	69	167	142.0	720	818	13.6
Human Resources Development	288	165	-42.7	1,380	1,151	-16.6
Indian and Northern Development	285	326	14.4	3,007	3,109	3.4
Industry and Regional Development	173	214	23.7	1,055	1,058	0.3
Veterans Affairs	114	117	2.6	1,024	1,038	1.4
Other	58	192	231.0	1,651	1,522	-7.8
Total	1,269	1,390	9.5	10,298	10,277	-0.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	174	145	-16.7	759	710	-6.5
Canada Mortgage and Housing Corporation	165	150	-9.1	1,310	1,345	2.7
Other	83	102	22.9	733	804	9.7
Total	422	397	-5.9	2,802	2,859	2.0
Operating and capital expenditures						
Defence	879	1,278	45.4	6,853	7,902	15.3
All other departmental expenditures	1,566	1,979	26.4	14,659	15,894	8.4
Total	2,445	3,257	33.2	21,512	23,796	10.6
Total direct program spending	4,136	5,044	22.0	34,612	36,932	6.7
<b>Total program expenditures</b>	8,789	9,880	12.4	74,599	77,945	4.5
<b>Public debt charges</b>	3,562	3,339	-6.3	31,058	30,825	-0.8
<b>Total budgetary expenditures</b>	12,351	13,219	7.0	105,657	108,770	2.9
<b>Memorandum item:</b>						
Total transfers	5,922	6,226	5.1	50,285	51,290	2.0

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$2.3 billion, or 6.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges declined 0.8 per cent from year-earlier levels, as a decline in the average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

### **Year-to-date: financial surplus of \$5.6 billion (excluding foreign exchange transactions)**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.4 billion in the first nine months of 1999-2000, up from the net requirement of \$3.3 billion in the same period of 1998-99. The higher requirement was due to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$5.6 billion in the April to December 1999 period, down from the \$7.1-billion surplus recorded in the same period of 1998.

### **Year-to-date: net financial surplus of \$5.3 billion (including foreign exchange transactions)**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.3 billion in the April to December 1999 period, compared to a net source of \$3.4 billion in the same period of 1998.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/surplus

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	2,431	3,080	10,354	10,949
<b>Loans, investments and advances</b>				
Crown corporations	204	77	1,095	308
Other	11	-42	-452	-105
<b>Total</b>	215	35	643	203
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-409	-684	-60	11
Superannuation accounts	427	512	2,959	3,683
Other	-37	19	8	-105
<b>Total</b>	-19	-153	2,907	3,589
<b>Other transactions</b>	-2,864	-4,394	-6,833	-9,147
<b>Total non-budgetary transactions</b>	-2,668	-4,512	-3,283	-5,355
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-237	-1,432	7,071	5,594
<b>Foreign exchange transactions</b>	4,219	3,875	3,394	-308
<b>Net financial balance</b>	3,982	2,443	10,465	5,286

Table 5

## Net financial balance and net borrowings

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Net financial balance</b>	3,982	2,443	10,465	5,286
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	4,141	82	5,972	6,949
Canada Savings Bonds	48	11	-2,149	-670
Treasury bills	900	550	-25,200	-3,500
Other	-	-93	1,281	-334
<b>Subtotal</b>	5,089	550	-20,096	2,445
Less: Government's holding of unmatured debt	-630	28	-479	-10
<b>Total</b>	4,459	578	-20,575	2,435
Payable in foreign currencies				
Marketable bonds	-	-	9,226	2,527
Notes and loans	-	-	-	-
Canada bills	-885	-628	801	-5,309
Canada notes	-128	-	-1,075	-256
<b>Total</b>	-1,013	-628	8,952	-3,038
<b>Net change in borrowings</b>	3,446	-50	-11,623	-603
<b>Change in cash balance</b>	7,428	2,393	-1,158	4,683

Table 6  
**Condensed statement of assets and liabilities**

	March 31, 1999	December 31, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,396	-5,113
Interest and matured debt	9,791	6,858	-2,933
Allowances	11,016	11,316	300
Total accounts payable, accruals and allowances	45,316	37,570	-7,746
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	126,091	3,684
Canada Pension Plan (net of securities)	5,427	5,438	11
Other pension and other accounts	6,724	6,618	-106
Total pension and other accounts	134,558	138,147	3,589
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,709	6,957
Treasury bills	96,950	93,450	-3,500
Canada Savings Bonds	27,662	26,974	-688
Other	4,063	3,728	-335
Subtotal	424,427	426,861	2,434
Payable in foreign currencies			
Marketable bonds	23,907	26,434	2,527
Canada bills	10,230	4,921	-5,309
Canada notes	1,863	1,607	-256
Subtotal	36,000	32,962	-3,038
Total unmatured debt	460,427	459,823	-604
Total interest-bearing debt	594,985	597,970	2,985
Total liabilities	640,301	635,540	-4,761
<b>Assets</b>			
Cash and accounts receivable	15,273	21,358	6,085
Foreign exchange accounts	34,668	34,975	307
Loans, investments and advances (net of allowances)	13,536	13,332	-204
Total assets	63,477	69,665	6,188
<b>Accumulated deficit (net public debt)</b>	576,824	565,875	-10,949



Table 7

## Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	(millions of dollars)							
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
Less:								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
<b>Net GST</b>	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127	123
<b>Gains from wind-up of interest in Crown corporations/ disposal of shares</b>	2	110			325			
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: Public Accounts of Canada.

With a budgetary surplus of \$10.9 billion, a net requirement of \$5.4 billion from non-budgetary transactions and a net requirement of \$0.3 billion from foreign exchange transactions, there was a net financial surplus of \$5.3 billion in the April to December 1999 period, compared to a net surplus of \$10.5 billion in the same period of 1998.

With a financial surplus of \$5.3 billion and a retirement of \$0.6 billion of market debt to the end of December 1999, there was a net increase in cash balances of \$4.7 billion to \$14.0 billion. The buildup of cash reflected the impact of precautionary measures relating to end-of-year considerations.

## The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the DSRA. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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February 2000



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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for January 2000

### Budgetary surplus of \$0.9 billion in January 2000

There was a budgetary surplus of \$0.9 billion in January 2000, up \$1.8 billion from the deficit of \$0.9 billion in January 1999. This year-over-year improvement was entirely attributable to higher budgetary revenues, up \$2.0 billion, or 16.9 per cent. However, most of this increase reflected the timing of receipts, which should be reversed in February.

The increase in budgetary revenues was concentrated in personal income tax and goods and services tax (GST) revenues.

Personal income tax revenues were up \$1.0 billion, or 15.8 per cent. Over half of this increase was attributable to the timing of receipts between January and February. The rest reflects the impact of a strong economy – more than 425,000 jobs were added in 1999.

GST revenues were up \$1.1 billion, more than double what they were in January 1999. This increase reflects a number of factors. First, gross collections were up strongly, attributable to the strong growth in those expenditures subject to the GST. Second, refunds declined on a year-over-year basis, reflecting lags in the processing of refunds. Over time, the growth in revenues should mirror the growth in gross collections. Finally, some advance payments of the GST quarterly credit were made in December 1999.

Among the other main revenue components:

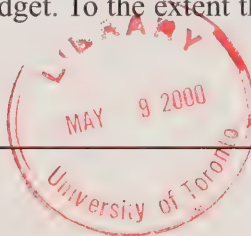
- Corporate income tax revenues were down slightly, reflecting both lower gross collections and higher refunds.
- Employment insurance (EI) premium revenues were down 7.5 per cent due to the reduction in premium rates from \$2.55 (employee rate per \$100 of insurable earnings) to \$2.40, effective January 2000.

Program spending was up \$0.2 billion, or 1.7 per cent. Most of this increase was attributable to higher transfers to persons and to other levels of government. Direct program spending declined.

Public debt charges increased slightly, reflecting a small increase in the stock of interest-bearing debt.

### Year-to-date: budgetary surplus of \$11.9 billion

Over the April 1999 to January 2000 period, the budgetary surplus was estimated at \$11.9 billion, up \$2.4 billion from the surplus recorded in the same period of 1998-99. As indicated in the February 2000 budget, developments over the balance of the fiscal year should reduce the surplus to date to about \$7.5 billion. In addition, the policy initiatives proposed in the 2000 budget will reduce the reported surplus to date by an additional \$4.5 billion. Allowing for the \$3-billion Contingency Reserve results in a balanced budget. To the extent that the Contingency





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	January		April to January	
	1999	2000	1998-99	1999-00
(millions of dollars)				
<b>Budgetary transactions</b>				
Revenues	11,824	13,823	127,835	133,542
Program spending	-9,198	-9,355	-83,796	-87,299
Operating surplus	2,626	4,468	44,039	46,243
Public debt charges	-3,537	-3,549	-34,595	-34,375
Budgetary balance (deficit/surplus)	-911	919	9,444	11,868
<b>Non-budgetary transactions</b>	2,055	2,481	-1,228	-2,873
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,144	3,400	8,216	8,995
<b>Foreign exchange transactions</b>	-3,841	-6,099	-446	-6,407
<b>Net financial balance</b>	-2,697	-2,699	7,770	2,588
<b>Net change in borrowings</b>	-4,849	-140	-16,377	-2,688
<b>Net change in cash balances</b>	-7,546	-2,839	-8,607	-100

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 2000*.

Over the first 10 months of 1999-2000, budgetary revenues were up \$5.7 billion, or 4.5 per cent, on a year-over-year basis.

- Personal income tax revenues were up \$3.6 billion, or 5.6 per cent. As noted above, part of this increase is attributable to the timing of receipts. However, most of it reflects higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds relating to the 1998 taxation year, higher Canada Child Tax Benefit payments,

increases in the amount of income Canadians can receive tax-free and the elimination of the 3-per-cent surtax, reflecting the measures announced in the 1998 and 1999 budgets.

- Corporate income tax revenues were up \$0.3 billion, or 1.7 per cent. Although corporate profits are estimated to have picked up strongly in 1999, refunds relating to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000. *The Budget Plan 2000* projected a strong pickup in corporate income tax revenue over the final months of the fiscal year as corporations file their settlement payments for taxation year 1999.

	January		Change	April to January		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Income taxes</b>						
Personal income tax	6,020	6,974	15.8	63,122	66,673	5.6
Corporate income tax	1,626	1,608	-1.1	15,488	15,748	1.7
Other income tax revenue	569	589	3.5	2,290	2,762	20.6
Total income tax	8,215	9,171	11.6	80,900	85,183	5.3
<b>Employment insurance premium revenues</b>	1,457	1,347	-7.5	15,450	14,659	-5.1
<b>Excise taxes and duties</b>						
Goods and services tax	1,022	2,088	104.3	17,370	19,741	13.6
Customs import duties	180	107	-40.6	1,998	1,871	-6.4
Sales and excise taxes	746	706	-5.4	7,166	6,888	-3.9
Total excise taxes and duties	1,948	2,901	48.9	26,534	28,500	7.4
<b>Total tax revenues</b>	11,620	13,419	15.5	122,884	128,342	4.4
<b>Non-tax revenues</b>	204	404	98.0	4,951	5,200	5.0
<b>Total budgetary revenues</b>	11,824	13,823	16.9	127,835	133,542	4.5

- EI premium revenues were down \$0.8 billion, or 5.1 per cent, as the decline in EI premium rates and adjustments relating to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$2.0 billion, or 7.4 per cent, with all of the increase attributable to higher GST revenues, up \$2.4 billion, or 13.6 per cent. Most of this is due to the strong gains in those expenditures subject to the GST. However, the timing of refunds should depress revenues over the balance of the fiscal year. Customs import duties were down 6.4 per cent. Sales and excise taxes and duties declined 3.9 per cent, primarily

attributable to the elimination of the Air Transportation Tax, effective November 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up 5.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$3.5 billion, or 4.2 per cent, in the April 1999 to January 2000 period, compared to the same period of 1998-99.

- Major transfers to persons were up 1.5 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	January		Change	April to January		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,897	1,972	4.0	18,904	19,386	2.5
Employment insurance benefits	1,162	1,324	13.9	9,263	9,204	-0.6
Total	3,059	3,296	7.7	28,167	28,590	1.5
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	10,417	10,417	0.0
Fiscal transfers	862	989	14.7	8,045	9,020	12.1
Alternative Payments for Standing Programs	-187	-188	0.5	-1,867	-1,876	0.5
Total	1,717	1,843	7.3	16,595	17,561	5.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	46	41	-10.9	520	570	9.6
Foreign Affairs	280	160	-42.9	1,267	1,212	-4.3
Health	87	43	-50.6	808	861	6.6
Human Resources Development	305	96	-68.5	1,685	1,247	-26.0
Indian and Northern Development	160	161	0.6	3,167	3,270	3.3
Industry and Regional Development	113	77	-31.9	1,168	1,136	-2.7
Veterans Affairs	116	119	2.6	1,140	1,157	1.5
Other	218	810	271.6	1,869	2,332	24.8
Total	1,325	857	13.7	11,624	11,785	1.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	20	-69.2	824	730	-11.4
Canada Mortgage and Housing Corporation	180	150	-16.7	1,490	1,495	0.3
Other	108	71	-34.3	841	875	4.0
Total	353	241	-31.7	3,155	3,100	-1.7
Operating and capital expenditures						
Defence	832	739	-11.2	7,684	8,643	12.5
All other departmental expenditures	1,912	1,729	-9.6	16,571	17,620	6.3
Total	2,744	2,468	-10.1	24,255	26,263	8.3
Total direct program spending	4,422	4,216	-4.7	39,034	41,148	5.4
<b>Total program expenditures</b>	9,198	9,355	1.7	83,796	87,299	4.2
<b>Public debt charges</b>	3,537	3,549	0.3	34,595	34,375	-0.6
<b>Total budgetary expenditures</b>	12,735	12,904	1.3	118,391	121,674	2.8
Memorandum item:						
Total transfers	6,101	5,996	-1.7	56,386	57,286	1.6

reflected an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.

- Major transfers to other levels of government were up \$1.0 billion, or 5.8 per cent, reflecting much higher fiscal transfers, most notably for Equalization. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$2.1 billion, or 5.4 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges declined 0.6 per cent from year-earlier levels, as a decline in the average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

## **Year-to-date: financial surplus of \$9.0 billion (excluding foreign exchange transactions)**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.9 billion in the first 10 months of 1999-2000, up from the net requirement of \$1.2 billion in the same period of 1998-99. The higher requirement was due to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$9.0 billion in the April 1999 to January 2000 period, up \$0.8 billion from the financial surplus recorded in the same period of 1998-99.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/surplus

	January		April to January	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	-911	919	9,444	11,868
<b>Loans, investments and advances</b>				
Crown corporations	150	86	1,245	393
Other	71	39	-382	-64
Total	221	125	863	329
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	744	-483	684	-471
Superannuation accounts	360	523	3,319	4,206
Other	-5	-24	3	-129
Total	1,099	16	4,006	3,606
<b>Other transactions</b>	735	2,340	-6,097	-6,808
<b>Total non-budgetary transactions</b>	2,055	2,481	-1,228	-2,873
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,144	3,400	8,216	8,995
<b>Foreign exchange transactions</b>	-3,841	-6,099	-446	-6,407
<b>Net financial balance</b>	-2,697	-2,699	7,770	2,588

Table 5

## Net financial balance and net borrowings

	January		April to January	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
<b>Net financial balance</b>	-2,697	-2,699	7,770	2,588
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	0	0	5,972	6,949
Canada Savings Bonds	526	11	-1,623	-774
Treasury bills	-3,300	550	-28,500	-5,450
Other	-894	-93	387	-285
Subtotal	-3,668	468	-23,764	440
Less: Government's holding of unmatured debt	-48	28	-432	98
Total	-3,716	496	-24,196	538
Payable in foreign currencies				
Marketable bonds	455	—	9,681	2,527
Notes and loans	—	—	—	—
Canada bills	-1,588	-628	-787	-5,489
Canada notes	0	-8	-1,075	-264
Total	-1,133	-636	7,819	-3,226
<b>Net change in borrowings</b>	-4,849	-140	-16,377	-2,688
<b>Change in cash balance</b>	-7,546	-2,839	-8,607	-100

Table 6

## Condensed statement of assets and liabilities

	March 31, 1999	January 31, 2000	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	18,765	-5,744
Interest and matured debt	9,791	10,200	409
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	39,981	-5,335
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	126,613	4,206
Canada Pension Plan (net of securities)	5,427	4,955	-472
Other pension and other accounts	6,724	6,594	-130
Total pension and other accounts	134,558	138,162	3,604
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,709	6,957
Treasury bills	96,950	91,500	-5,450
Canada Savings Bonds	27,662	26,978	-684
Other	4,063	3,778	-285
Subtotal	424,427	424,965	538
Payable in foreign currencies			
Marketable bonds	24,569	27,096	2,527
Canada bills	10,171	4,682	-5,489
Canada notes	1,261	977	-264
Subtotal	36,000	32,774	-3,226
Total unmaturred debt	460,427	457,739	-2,688
Total interest-bearing debt	594,985	595,901	916
Total liabilities	640,301	635,882	-4,419
<b>Assets</b>			
Cash and accounts receivable	15,273	16,645	1,372
Foreign exchange accounts	34,668	41,074	6,406
Loans, investments and advances (net of allowances)	13,536	13,207	-329
Total assets	63,477	70,926	6,188
<b>Accumulated deficit (net public debt)</b>	576,824	564,956	-11,868



# The Fiscal Monitor

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## **Year-to-date: net financial surplus of \$2.6 billion (including foreign exchange transactions)**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves,

also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$6.4 billion in the April 1999 to January 2000 period, compared to a net requirement of \$0.4 billion in the same period of 1998-99.

With a budgetary surplus of \$11.9 billion, a net requirement of \$2.9 billion from non-budgetary transactions and a net requirement of \$6.4 billion from foreign exchange transactions, there was a net financial surplus of \$2.6 billion in the April 1999 to January 2000 period, compared to a net surplus of \$7.8 billion in the same period of 1998-99. This surplus, along with a reduction in cash balances of \$0.1 billion, was used to retire \$2.7 billion of market debt. Cash balances at the end of January 2000 stood at \$9.2 billion.

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for February 2000

### Budgetary surplus of \$3.1 billion in February 2000

There was a budgetary surplus of \$3.1 billion in February 2000, up \$2.5 billion from the surplus of \$0.6 billion reported in February 1999. The key factor contributing to this year-over-year improvement was higher corporate income tax revenues, which were up \$2.8 billion. Overall, budgetary revenues increased by \$1.9 billion, program spending declined by \$0.7 billion, while public debt charges increased by \$0.1 billion.

Corporate income tax revenues amounted to \$5.4 billion in February 2000, more than double the amount received in February 1999. This increase primarily reflects the interaction of remittance procedures for corporations with the strong pickup in economic growth through 1999. Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability. They have 60 days after their year-end to make settlement payments for any amounts owing. As most of the large non-financial sector corporations have a December year-end, a substantial amount of corporate income tax revenues are received in the months of February and March – ranging from 25 per cent to 40 per cent of the total revenues for the year as a whole. Monthly instalment payments for 1999 were largely based on 1998 tax liabilities. However, according to Statistics Canada, corporate profits rose an estimated 25 per cent in 1999, after declining 6 per cent in 1998. As a result, monthly instalment payments for 1999 substantially understated the actual tax liability for the year

as a whole, resulting in exceptionally large settlement period payments. The monthly remittance procedures, coupled with the volatility of corporate profits, make it extremely difficult to estimate corporate income tax revenues for the year as a whole. *The Budget Plan 2000* projected strong growth in corporate income tax revenues over the final months of the fiscal year, based on the information available at that time. However, data released since the budget indicate that economic growth throughout 1999 was much stronger than anticipated by private sector economists at that time. In particular, corporate profits were up 35 per cent at annual rates in the fourth quarter, resulting in the much higher corporate income tax revenues witnessed in February 2000. The other revenue components remain largely on track.

Among the other major revenue components:

- Personal income tax revenues declined \$0.5 billion, or 8 per cent, from February 1999. As indicated in last month's *Fiscal Monitor*, a decline was expected, as part of the large year-over-year increase in January 2000 was attributable to the timing of receipts between January and February.
- Goods and services tax (GST) revenues declined \$0.4 billion, or 20.7 per cent, as the growth in refunds and rebates outstripped the growth in gross receipts.

The decline in program spending was primarily attributable to the inclusion in the February 1999 results of prior-year adjustments to transfer payments to other levels of government. As noted in *The Budget Plan 1999*, data revisions





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	February		April to February	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	14,427	16,284	142,262	149,826
Program spending	-10,442	-9,723	-94,239	-97,022
Operating surplus	3,985	6,561	48,023	52,804
Public debt charges	-3,356	-3,481	-37,951	-37,856
Budgetary balance (deficit/surplus)	629	3,080	10,072	14,948
<b>Non-budgetary transactions</b>	670	405	-559	-2,469
<b>Financial requirements/surplus</b> (excluding foreign exchange transactions)	1,299	3,485	9,513	12,479
<b>Foreign exchange transactions</b>	1,814	-1,176	1,368	-7,584
<b>Net financial balance</b>	3,113	2,309	10,881	4,895
<b>Net change in borrowings</b>	2,154	-362	-14,222	-3,050
<b>Net change in cash balances</b>	5,267	1,947	-3,341	1,845

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

for 1996-97 and 1997-98 resulted in large upward revisions to Equalization entitlements amounting to \$1.7 billion. These were included in the February 1999 results.

### Year-to-date: budgetary surplus of \$14.9 billion

Over the April 1999 to February 2000 period, the budgetary surplus was estimated at \$14.9 billion, up \$4.9 billion from the surplus recorded in the same period of 1998-99. As noted in the 2000 budget, economic and policy developments over the balance of the fiscal year are expected to reduce the cumulative surplus to date (see Chapter 3 of *The Budget Plan 2000*).

The 2000 budget announced initiatives totalling \$4.5 billion, including the Canada Health and Social Transfer cash supplement of \$2.5 billion and \$0.9 billion to the Canada Foundation for Innovation among others, which will be recorded in the balance of the fiscal year. In addition, the full costs of policy initiatives introduced in the

1999 budget and those announced prior to the 2000 budget, totalling about \$1 billion, have yet to be reflected in the year-to-date results. Finally, adjustments will be made in the end-of-year accounting period to include the cost of goods and services received in late 1999-2000 but for which payments are not made until the April/May 2000 period and for personal income tax refunds processed in March 2000 relating to the 1999 taxation year.

These adjustments, coupled with the expected developments in February and March 2000 and the inclusion of \$3 billion for the Contingency Reserve, underlie the balanced budget estimate in the February 2000 budget for 1999-2000.

However, given the strength in corporate income tax revenues in February 2000, the final outcome for 1999-2000 will be better than expected. Any surplus for 1999-2000 will be applied to reducing the federal debt. Final audited results for 1999-2000 will be released in the fall.

Table 2

## Budgetary revenues

	February		Change	April to February		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Income taxes</b>						
Personal income tax	6,349	5,839	-8.0	69,471	72,512	4.4
Corporate income tax	2,635	5,394	104.7	18,123	21,142	16.7
Other income tax revenue	150	260	73.3	2,440	3,022	23.9
Total income tax	9,134	11,493	25.8	90,034	96,676	7.4
<b>Employment insurance premium revenues</b>	2,131	2,110	-1.0	17,580	16,768	-4.6
<b>Excise taxes and duties</b>						
Goods and services tax	2,152	1,706	-20.7	19,522	21,448	9.9
Customs import duties	222	164	-26.1	2,220	2,035	-8.3
Sales and excise taxes	608	577	-5.1	7,775	7,465	-4.0
Total excise taxes and duties	2,982	2,447	-17.9	29,517	30,948	4.8
<b>Total tax revenues</b>	14,247	16,050	12.7	137,131	144,392	5.3
<b>Non-tax revenues</b>	180	234	30.0	5,131	5,434	5.9
<b>Total budgetary revenues</b>	14,427	16,284	12.9	142,262	149,826	5.3

Over the first 11 months of 1999-2000, budgetary revenues were up \$7.6 billion, or 5.3 per cent, on a year-over-year basis.

- Personal income tax revenues were up \$3.0 billion, or 4.4 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds relating to the 1998 taxation year, higher Canada Child Tax Benefit payments, increases in the amount of income Canadians can receive tax-free and the elimination of the 3-per-cent surtax, reflecting the measures announced in the 1998 and 1999 budgets.
- Corporate income tax revenues were up \$3.0 billion, or 16.7 per cent, somewhat below the estimated growth in corporate profits for 1999.
- Employment insurance (EI) premium revenues were down \$0.8 billion, or 4.6 per cent, as the decline in EI premium rates more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.4 billion, or 4.8 per cent, with all of the increase attributable to higher GST revenues, up \$1.9 billion, or 9.9 per cent, reflecting the strong gains in those expenditures subject to the GST. Customs import duties were down 8.3 per cent, while sales and excise taxes and duties declined 4.0 per cent, primarily attributable to the elimination of the Air Transportation Tax, effective November 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up 5.9 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	February		Change	April to February		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,924	1,969	2.3	20,829	21,355	2.5
Employment insurance benefits	1,185	1,121	-5.4	10,448	10,325	-1.2
Total	3,109	3,090	-0.6	31,277	31,680	1.3
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	11,458	11,458	0.0
Fiscal transfers	2,396	975	-59.3	10,441	9,995	-4.3
Alternative Payments for Standing Programs	-187	-188	0.5	-2,054	-2,063	0.4
Total	3,251	1,829	-43.7	19,845	19,390	-2.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	47	195	314.9	567	765	34.9
Foreign Affairs	138	362	162.3	1,405	1,574	12.0
Health	55	71	29.1	863	932	8.0
Human Resources Development	144	103	-28.5	1,829	1,350	-26.2
Indian and Northern Development	182	218	19.8	3,349	3,488	4.2
Industry and Regional Development	224	172	-23.2	1,392	1,308	-6.0
Veterans Affairs	115	119	3.5	1,255	1,276	1.7
Other	218	279	28.0	2,087	2,611	25.1
Total	1,123	1,519	35.3	12,747	13,304	4.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	45	75	66.7	869	805	-7.4
Canada Mortgage and Housing Corporation	135	150	11.1	1,625	1,645	1.2
Other	102	56	-45.1	943	931	-1.3
Total	282	281	-0.4	3,437	3,381	-1.6
Operating and capital expenditures						
Defence	853	1,007	18.1	8,536	9,648	13.0
All other departmental expenditures	1,824	1,997	9.5	18,397	19,619	6.6
Total	2,677	3,004	12.2	26,933	29,267	8.7
Total direct program spending	4,082	4,804	17.7	43,117	45,952	6.6
<b>Total program expenditures</b>	10,442	9,723	-6.9	94,239	97,022	3.0
<b>Public debt charges</b>	3,356	3,481	3.7	37,951	37,856	-0.3
<b>Total budgetary expenditures</b>	13,798	13,204	-4.3	132,190	134,878	2.0
Memorandum item:						
Total transfers	7,483	6,438	-14.0	63,869	64,374	0.8

Program spending increased by \$2.8 billion, or 3.0 per cent, in the April 1999 to February 2000 period, compared to the same period of 1998-99.

- Major transfers to persons were up \$0.4 billion, or 1.3 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits reflected an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government declined \$0.5 billion, or 2.3 per cent, reflecting the impact of prior-year adjustments affecting fiscal transfers, most notably for Equalization. As indicated in the 1999 budget, Equalization entitlements were revised up significantly for years prior to 1999 due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces. While an adjustment of \$1.7 billion was included in the February 1999 results, no such large adjustments are expected this year.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$2.8 billion, or 6.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the lifting of the wage freeze, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges declined 0.3 per cent from year-earlier levels, as a decline in the average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

## **Year-to-date: financial surplus of \$12.5 billion (excluding foreign exchange transactions)**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.5 billion in the first 11 months of 1999-2000, up from the net requirement of \$0.6 billion in the same period of 1998-99. The higher requirement was due to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$12.5 billion in the April 1999 to February 2000 period, up \$3.0 billion from the financial surplus recorded in the same period of 1998-99.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/surplus

	February		April to February	
	1999	2000	1998-99	1999-00
(millions of dollars)				
<b>Budgetary balance (deficit/surplus)</b>	629	3,080	10,072	14,948
<b>Loans, investments and advances</b>				
Crown corporations	66	135	1,311	528
Other	125	149	-257	85
Total	191	284	1,054	613
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	555	413	1,240	-58
Superannuation accounts	324	325	3,643	4,531
Other	-1	81	2	-49
Total	878	819	4,885	4,424
<b>Other transactions</b>	-399	-698	-6,498	-7,506
<b>Total non-budgetary transactions</b>	670	405	-559	-2,469
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,299	3,485	9,513	12,479
<b>Foreign exchange transactions</b>	1,814	-1,176	1,368	-7,584
<b>Net financial balance</b>	3,113	2,309	10,881	4,895

Table 5

## Net financial balance and net borrowings

	February		April to February	
	1999	2000	1998-99	1999-00
(millions of dollars)				
<b>Net financial balance</b>	3,113	2,309	10,881	4,895
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	2,300	-600	8,272	6,349
Canada Savings Bonds	-201	-187	-1,825	-961
Treasury bills	2,200	100	-26,300	-5,350
Other	-279	0	108	-285
Subtotal	4,020	-687	-19,745	-247
Less: Government's holding of unmatured debt	558	-6	127	91
Total	4,578	-693	-19,618	-156
Payable in foreign currencies				
Marketable bonds	-2,801	-39	6,880	2,488
Notes and loans	-	-	-	-
Canada bills	377	370	-409	-5,118
Canada notes	0	0	-1,075	-264
Total	-2,424	331	5,396	-2,894
<b>Net change in borrowings</b>	2,154	-362	-14,222	-3,050
<b>Change in cash balance</b>	5,267	1,947	-3,341	1,845



Table 6

## Condensed statement of assets and liabilities

	March 31, 1999	February 29, 2000	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,218	-5,291
Interest and matured debt	9,791	6,826	-2,965
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	37,060	-8,256
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	126,938	4,531
Canada Pension Plan (net of securities)	5,427	5,368	-59
Other pension and other accounts	6,724	6,674	-50
Total pension and other accounts	134,558	138,980	4,422
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	295,752	302,109	6,357
Treasury bills	96,950	91,600	-5,350
Canada Savings Bonds	27,662	26,785	-877
Other	4,063	3,778	-285
Subtotal	424,427	424,272	-155
Payable in foreign currencies			
Marketable bonds	24,569	27,057	2,488
Canada bills	10,171	5,053	-5,118
Canada notes	1,261	997	-264
Subtotal	36,000	33,106	-2,894
Total unmaturred debt	460,427	457,378	-3,049
Total interest-bearing debt	594,985	596,358	1,373
Total liabilities	640,301	633,418	-6,883
<b>Assets</b>			
Cash and accounts receivable	15,273	16,368	1,095
Foreign exchange accounts	34,668	42,251	7,583
Loans, investments and advances (net of allowances)	13,536	12,923	-613
Total assets	63,477	71,542	8,065
<b>Accumulated deficit (net public debt)</b>	576,824	561,876	-14,948

## **Year-to-date: net financial surplus of \$4.9 billion (including foreign exchange transactions)**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the

level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$7.6 billion in the April 1999 to February 2000 period, compared to a net source of \$1.4 billion in the same period of 1998-99.

With a budgetary surplus of \$14.9 billion, a net requirement of \$2.5 billion from non-budgetary transactions and a net requirement of \$7.6 billion from foreign exchange transactions, there was a net financial surplus of \$4.9 billion in the April 1999 to February 2000 period, compared to a net surplus of \$10.9 billion in the same period of 1998-99. This surplus was used to retire \$3.1 billion of market debt and increase cash balances by \$1.8 billion. Cash balances at the end of February 2000 stood at \$11.2 billion.



# The Fiscal Monitor

A Publication of the Department of Finance

JUN 26 2000

University of Toronto

## Highlights of financial results for March 2000

### Budgetary deficit of \$31 million in March 2000

There was a budgetary deficit of \$31 million in March 2000, an improvement of \$501 million from March 1999. Budgetary revenues were up \$977 million, or 7.2 per cent, program spending increased \$470 million, or 4.4 per cent, while public debt charges were virtually unchanged (up \$6 million, or 0.2 per cent), from year earlier levels.

### Year-to-date: budgetary surplus of \$14.9 billion

Over 12 months (April 1999 to March 2000), the budgetary surplus was estimated at \$14.9 billion, up \$5.4 billion from the surplus of \$9.5 billion reported in the same period of 1998-99. Budgetary revenues were up \$8.5 billion, or 5.5 per cent, program spending was up \$3.3 billion, or 3.1 per cent, while public debt charges were down \$90 million, or 0.2 per cent.

### Final results to come in the fall

The financial results for the April 1999 to March 2000 period are not the final results for the 1999-2000 fiscal year. Still to come are the regular end-of-year accounting adjustments.

Consistent with government accounting principles, these adjustments incorporate increases in program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1999-2000. For example, the 2000 budget

announcement of a one-time cash supplement of \$2.5 billion to the Canada Health and Social Transfer will be booked in the end-of-year accounting period, following passage of legislation. In addition, adjustments are made to include liabilities incurred by departments for goods and services received in late 1999-2000 but for which payments were made in the April/May 2000 period.

These adjustments, coupled with the inclusion of \$3 billion for the Contingency Reserve, underlie the balanced budget estimate in the February 2000 budget for 1999-2000. However, the results to date indicate the final outcome for 1999-2000 will be better than expected. Economic growth for 1999 and the first quarter of 2000 was much stronger than expected by private sector economists when the budget estimates were finalized. This has translated into higher-than-expected personal and corporate income tax revenues. Spending remains largely on track. Any surplus for 1999-2000 will be applied to reducing the federal debt.

Final audited financial results for 1999-2000 will be released in the fall.

### Year-to-date: budgetary revenues up \$8.5 billion

In the April 1999 to March 2000 period, budgetary revenues were up \$8.5 billion, or 5.5 per cent, compared to the same period of 1998-99.

- Personal income tax revenues were up \$4.0 billion, or 5.5 per cent, primarily





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	1999	2000	1998-99	1999-00
(millions of dollars)				
<b>Budgetary transactions</b>				
Revenues	13,608	14,585	155,870	164,411
Program spending	-10,729	-11,199	-104,967	-108,221
Operating surplus	2,879	3,386	50,903	56,190
Public debt charges	-3,411	-3,417	-41,363	-41,273
Budgetary balance (deficit/surplus)	-532	-31	9,540	14,917
<b>Non-budgetary transactions</b>	1,771	3,677	1,210	1,210
<b>Financial requirements/surplus</b> (excluding foreign exchange transactions)	1,239	3,646	10,750	16,127
<b>Foreign exchange transactions</b>	-5,846	-1,661	-4,478	-9,244
<b>Net financial balance</b>	-4,607	1,985	6,272	6,883
<b>Net change in borrowings</b>	6,853	-128	-7,368	-3,178
<b>Net change in cash balances</b>	2,246	1,857	-1,096	3,705
<b>Cash balance at end of period</b>			9,285	13,011

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds relating to the 1998 and 1999 taxation years and higher Canada Child Tax Benefit payments. The large increase in personal income tax revenues in March 2000 over March 1999 was primarily attributable to the reallocation of revenues from personal income tax to corporate income tax in March 1999. Personal income revenues in February 1999 were overstated and this was corrected in March 1999.

- Corporate income tax revenues were up \$2.6 billion, or 12.3 per cent, about half the estimated increase in corporate profits for 1999. The decline in revenues in March 2000 over March 1999 was attributable to the

reallocation noted above. Corporate income tax revenues were understated in February 1999 with a comparable upward correction in March 1999.

- Employment insurance (EI) premium revenues were down \$0.9 billion, or 4.6 per cent, as the decline in the EI premium rate from \$2.70 (employee rate per \$100 of insurable earnings) in 1998 to \$2.55 in 1999 and \$2.40 in 2000 more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.6 billion, or 5.1 per cent, with all of the increase attributable to higher goods and services tax (GST) revenues, up \$2.0 billion, or 9.8 per cent, reflecting the strong gains in those expenditures subject to the GST. Customs import duties were down 6.6 per cent, while sales and excise taxes and duties declined

Table 2

## Budgetary revenues

	March		Change	April to March		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Income taxes</b>						
Personal income tax	4,089	5,091	24.5	73,560	77,603	5.5
Corporate income tax	2,577	2,109	-18.2	20,700	23,251	12.3
Other income tax revenue	452	450	-0.4	2,892	3,472	20.1
Total income tax	7,118	7,650	7.5	97,152	104,326	7.4
<b>Employment insurance premium revenues</b>	1,808	1,735	-4.0	19,388	18,504	-4.6
<b>Excise taxes and duties</b>						
Goods and services tax	1,407	1,527	8.5	20,929	22,975	9.8
Customs import duties	149	177	18.8	2,369	2,212	-6.6
Sales and excise taxes	674	704	4.5	8,449	8,168	-3.3
Total excise taxes and duties	2,230	2,408	8.0	31,747	33,355	5.1
<b>Total tax revenues</b>	11,156	11,793	5.7	148,287	156,185	5.3
<b>Non-tax revenues</b>	2,452	2,792	13.9	7,583	8,226	8.5
<b>Total budgetary revenues</b>	13,608	14,585	7.2	155,870	164,411	5.5

3.3 per cent, primarily attributable to the elimination of the Air Transportation Tax, effective November 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up 8.5 per cent.

## Year-to date: program spending up \$3.3 billion

Program spending increased by \$3.3 billion, or 3.1 per cent, in the April 1999 to March 2000 period, compared to the same period of 1998-99.

- Major transfers to persons were up \$0.2 billion or 0.5 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits reflected an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was due to a decline in the number of

beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.

- Major transfers to other levels of government declined \$0.6 billion, or 3.0 per cent, reflecting the impact of prior-year adjustments in 1998-99 affecting fiscal transfers, most notably for Equalization. As indicated in the 1999 budget, Equalization entitlements were revised up significantly for years prior to 1999 due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces. While an adjustment of \$1.7 billion was included in the February 1999 results, no such large adjustments are expected this year.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$3.7 billion, or 7.7 per cent.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	March			April to March		
	1999	2000	Change	1998-99	1999-00	Change
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,937	2,000	3.3	22,765	23,355	2.6
Employment insurance benefits	1,323	1,015	-23.3	11,772	11,340	-3.7
Total	3,260	3,015	-7.5	34,537	34,695	0.5
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	12,500	12,500	0.0
Fiscal transfers	790	692	-12.4	11,231	10,687	-4.8
Alternative Payments for Standing Programs	-93	-188	102.2	-2,147	-2,251	4.8
Total	1,739	1,546	-11.1	21,584	20,936	-3.0
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	82	135	64.6	649	950	46.4
Foreign Affairs	230	327	42.2	1,635	1,901	16.3
Health	93	118	26.9	955	1,050	9.9
Human Resources Development	179	229	27.9	2,008	1,579	-21.4
Indian and Northern Development	340	217	-36.2	3,689	3,705	0.4
Industry and Regional Development	272	264	-2.9	1,664	1,572	-5.5
Veterans Affairs	117	121	3.4	1,372	1,397	1.8
Other	1,058	1,501	41.9	3,144	4,062	29.2
Total	2,371	2,912	22.8	15,116	16,216	7.3
Payments to Crown corporations						
Canadian Broadcasting Corporation	27	66	144.4	896	871	-2.8
Canada Mortgage and Housing Corporation	175	150	-14.3	1,800	1,795	-0.3
Other	100	54	-46.0	1,043	985	-5.6
Total	302	270	-10.6	3,739	3,651	-2.4
Operating and capital expenditures						
Defence	972	1,127	15.9	9,508	10,775	13.3
All other departmental expenditures	2,085	2,329	11.7	20,483	21,948	7.2
Total	3,057	3,456	13.1	29,991	32,723	9.1
Total direct program spending	5,730	6,638	15.8	48,846	52,590	7.7
<b>Total program expenditures</b>	10,729	11,199	4.4	104,967	108,221	3.1
<b>Public debt charges</b>	3,411	3,417	0.2	41,363	41,273	-0.2
<b>Total budgetary expenditures</b>	14,140	14,616	3.4	146,330	149,494	2.2
Memorandum item:						
Total transfers	7,370	7,473	1.4	71,237	71,847	0.9



This component includes subsidies and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the lifting of the wage freeze, the effect of new initiatives announced in the 1999 and 2000 budgets, and the costs associated with Canada's international peacekeeping commitments.

## **Year-to date: public debt charges down \$90 million**

Public debt charges declined 0.2 per cent from year-earlier levels, as a lower average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

## **Financial surplus of \$16.1 billion (excluding foreign exchange transactions) in 1999-2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net source of \$1.2 billion for the April 1999 to March 2000 period, unchanged from the same

period in 1998-99. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$16.1 billion in the April 1999 to March 2000 period, up \$5.4 billion from the financial surplus recorded in the same period of 1998-99.

## **Net financial surplus of \$6.9 billion (including foreign exchange transactions) in 1999-2000**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$9.2 billion in the April 1999 to March 2000 period, compared to a net requirement of \$4.5 billion in the same period of 1998-99.

With a budgetary surplus of \$14.9 billion, a net source of \$1.2 billion from non-budgetary transactions and a net requirement of \$9.2 billion from foreign exchange transactions, there was a net financial surplus of \$6.9 billion in the April 1999 to March 2000 period, compared to a net surplus of \$6.3 billion in the same period of 1998-99. This surplus was used to retire \$3.2 billion of market debt and increase cash balances by \$3.7 billion. Cash balances at the end of March 2000 stood at \$13.0 billion.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/surplus

	March		April to March	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	-532	-31	9,540	14,917
<b>Loans, investments and advances</b>				
Crown corporations	302	12	1,613	540
Other	-146	62	-403	147
<b>Total</b>	<b>156</b>	<b>74</b>	<b>1,210</b>	<b>687</b>
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-7	893	1,233	835
Superannuation accounts	243	547	3,885	5,078
Other	34	74	35	26
<b>Total</b>	<b>270</b>	<b>1,514</b>	<b>5,153</b>	<b>5,939</b>
<b>Other transactions</b>	<b>1,345</b>	<b>2,089</b>	<b>-5,153</b>	<b>-5,416</b>
<b>Total non-budgetary transactions</b>	<b>1,771</b>	<b>3,677</b>	<b>1,210</b>	<b>1,210</b>
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	<b>1,239</b>	<b>3,646</b>	<b>10,750</b>	<b>16,127</b>
<b>Foreign exchange transactions</b>	<b>-5,846</b>	<b>-1,661</b>	<b>-4,478</b>	<b>-9,244</b>
<b>Net financial balance</b>	<b>-4,607</b>	<b>1,985</b>	<b>6,272</b>	<b>6,883</b>

Table 5

## Net financial balance and net borrowings

	March		April to March	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
<b>Net financial balance</b>	<b>-4,607</b>	<b>1,985</b>	<b>6,272</b>	<b>6,883</b>
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-7,300	-8,491	972	-2,142
Canada Savings Bonds	-50	-439	-1,875	-1,400
Treasury bills	10,950	8,250	-15,350	2,900
Other	499	-352	607	-636
<b>Subtotal</b>	<b>4,099</b>	<b>-1,032</b>	<b>-15,646</b>	<b>1,278</b>
Less: Government's holding of unmatured debt	66	-93	-193	-2
<b>Total</b>	<b>4,165</b>	<b>-1,125</b>	<b>-15,453</b>	<b>-1,280</b>
Payable in foreign currencies				
Marketable bonds	132	0	7,013	2,488
Notes and loans	-	0	-	-
Canada bills	1,283	997	874	-4,122
Canada notes	1,273	0	198	-264
<b>Total</b>	<b>2,688</b>	<b>997</b>	<b>8,085</b>	<b>-1,898</b>
<b>Net change in borrowings</b>	<b>6,853</b>	<b>-128</b>	<b>-7,368</b>	<b>-3,178</b>
<b>Change in cash balance</b>	<b>2,246</b>	<b>1,857</b>	<b>-1,096</b>	<b>3,705</b>

Table 6

## Condensed statement of assets and liabilities

	March 31, 1999	March 31, 2000	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	22,158	-2,351
Interest and matured debt	9,791	8,678	-1,113
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	41,852	-3,464
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	127,485	5,078
Canada Pension Plan (net of securities)	5,427	6,262	835
Other pension and other accounts	6,724	6,749	25
Total pension and other accounts	134,558	140,496	5,938
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	295,752	293,618	-2,134
Treasury bills	96,950	99,850	2,900
Canada Savings Bonds	27,662	26,252	-1,410
Other	4,063	3,426	-637
Subtotal	424,427	423,146	-1,281
Payable in foreign currencies			
Marketable bonds	24,569	27,057	2,488
Canada bills	10,171	6,049	-4,122
Canada notes	1,261	997	-264
Subtotal	36,000	34,103	-1,897
Total unmaturred debt	460,427	457,249	-3,178
Total interest-bearing debt	594,985	597,745	2,760
Total liabilities	640,301	639,597	-704
<b>Assets</b>			
Cash and accounts receivable	15,273	20,930	5,657
Foreign exchange accounts	34,668	43,911	9,243
Loans, investments and advances (net of allowances)	13,536	12,849	-687
Total assets	63,477	77,690	14,213
<b>Accumulated deficit (net public debt)</b>	576,824	561,907	-14,917



# The Fiscal Monitor

Table 7

## Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	(millions of dollars)							
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
Less:								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
<b>Net GST</b>	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127	123
<b>Gains from wind-up of interest in Crown corporations/disposal of shares</b>	2	110			325			
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: *Public Accounts of Canada*.

## The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds

from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the DSRA. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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May 2000



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for April 2000

### Budgetary surplus of \$2.7 billion in April 2000

There was a budgetary surplus of \$2.7 billion in April 2000, up \$1.2 billion from the surplus of \$1.5 billion in April 1999. Budgetary revenues were up 11.2 per cent, program spending was up 3.7 per cent and public debt charges declined 1.3 per cent.

Among the major revenue components, personal and corporate income tax revenues were higher, with declines reported in all other major revenue components.

- Personal income tax collections were up 12.0 per cent, or \$0.8 billion. However, half of the increase was attributable to timing factors related to the processing of personal income tax refunds in March and April. While the value of refunds processed in March 2000 was \$0.6 billion higher than in March 1999, the value of those processed in April 2000 was \$0.4 billion lower than in April 1999. The remaining increase in collections in April 2000 primarily reflected continued strength in monthly deductions from employment income, due to the increase in the number of people employed.
- Corporate income tax collections increased 81.3 per cent, or \$0.9 billion. Although part of this increase reflects the continued strength in corporate profits, another important factor relates to tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability. Although corporate

profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. With current monthly instalments largely based on 1999 tax liabilities, the monthly results for 2000-01 may again be misleading.

- Employment insurance premium revenues were down 0.2 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were 1.8 per cent lower. However, given the continued strength in consumer spending, the results for April appear to be affected by timing factors, which should result in increased revenues in future months.

Within program spending, all major components were higher.

- Major transfers to persons were up 1.4 per cent, as increased elderly benefit payments more than offset a decline in employment insurance benefits.
- Major transfers to other levels of government were up 8.8 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	April	
	1999	2000
	(millions of dollars)	
<b>Budgetary transactions</b>		
Revenues	13,229	14,712
Program spending	-8,289	-8,595
Operating surplus	4,940	6,117
Public debt charges	-3,412	-3,368
Budgetary balance (deficit/surplus)	1,528	2,749
<b>Non-budgetary transactions</b>	-3,556	-5,223
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-2,028	-2,474
<b>Foreign exchange transactions</b>	-632	1,129
<b>Net financial balance</b>	-2,660	-1,345
<b>Net change in borrowings</b>	-4,716	-5,788
<b>Net change in cash balances</b>	-7,376	-7,133

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased by 3.3 per cent. Subsidies and other transfers increased 0.9 per cent while payments to Crown corporations advanced by 12.7 per cent. Defence spending declined, as last year's results were affected by the costs associated with Canada's international peacekeeping commitments. All other departmental expenditures advanced by 7.4 per cent. The monthly fluctuations in these components are due in large part to the timing of payments.

The decline in public debt charges was attributable to a decline in the stock of interest-bearing debt, as the average effective interest rate on that stock was unchanged.

## Financial requirements of \$2.5 billion (excluding foreign exchange transactions) in April 2000

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.



Table 4

## The budgetary balance and financial requirements/surplus

	April	
	1999	2000
	(millions of dollars)	
<b>Budgetary balance (deficit/surplus)</b>	1,528	2,749
<b>Loans, investments and advances</b>		
Crown corporations	-64	0
Other	350	105
Total	286	105
<b>Specified purpose accounts</b>		
Canada Pension Plan Account	-221	-394
Superannuation accounts	366	316
Other	21	-44
Total	166	-122
<b>Other transactions</b>	-4,008	-5,206
<b>Total non-budgetary transactions</b>	-3,556	-5,223
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-2,028	-2,474
<b>Foreign exchange transactions</b>	-632	1,129
<b>Net financial balance</b>	-2,660	-1,345

Table 5

## Net financial balance and net borrowings

	April	
	1999	2000
	(millions of dollars)	
<b>Net financial balance</b>	-2,660	-1,345
<b>Net increase (+)/decrease (-) in borrowings</b>		
Payable in Canadian dollars		
Marketable bonds	0	1,900
Canada Savings Bonds	-31	-5
Treasury bills	-4,050	-7,250
Other	598	0
Subtotal	-3,483	-5,355
Payable in foreign currencies		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-1,233	-433
Canada notes	0	0
Total	-1,233	-433
<b>Net change in borrowings</b>	-4,716	-5,788
<b>Change in cash balance</b>	-7,376	-7,133

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	April		Change (%)
	1999 (millions of dollars)	2000	
<b>Transfer payments to:</b>			
Persons			
Elderly benefits	1,915	1,997	4.3
Employment insurance benefits	1,079	1,038	-3.8
Total	2,994	3,035	1.4
Other levels of government			
Canada Health and Social Transfer	1,042	1,125	8.0
Fiscal transfers	744	832	11.8
Alternative Payments for Standing Programs	-177	-206	16.4
Total	1,609	1,751	8.8
<b>Direct program spending</b>			
Subsidies and other transfers			
Agriculture	1	9	800.0
Foreign Affairs	57	55	-3.5
Health	55	63	14.5
Human Resources Development	28	8	-71.4
Indian and Northern Development	829	842	1.6
Industry and Regional Development	91	27	-70.3
Veterans Affairs	113	116	2.7
Other	176	242	37.5
Total	1,350	1,362	0.9
Payments to Crown corporations			
Canadian Broadcasting Corporation	113	173	53.1
Canada Mortgage and Housing Corporation	145	150	3.4
Other	153	140	-8.5
Total	411	463	12.7
Operating and capital expenditures			
Defence	534	490	-8.2
All other departmental expenditures	1,391	1,494	7.4
Total	1,925	1,984	3.1
Total direct program spending	3,686	3,809	3.3
<b>Total program expenditures</b>	8,289	8,595	3.7
<b>Public debt charges</b>	3,412	3,368	-1.3
<b>Total budgetary expenditures</b>	11,701	11,963	2.2
Memorandum item:			
Total transfers	5,953	6,148	3.3

# The Fiscal Monitor

Table 2

## Budgetary revenues

	April		Change (%)
	1999 (millions of dollars)	2000	
<b>Income taxes</b>			
Personal income tax	6,559	7,347	12.0
Corporate income tax	1,083	1,963	81.3
Other income tax revenue	423	342	-19.1
Total income tax	8,065	9,652	19.7
<b>Employment insurance premium revenues</b>	1,788	1,784	-0.2
<b>Excise taxes and duties</b>			
Goods and services tax	2,097	2,077	-1.0
Customs import duties	180	160	-11.1
Sales and excise taxes	625	612	-2.1
Total excise taxes and duties	2,902	2,849	-1.8
<b>Total tax revenues</b>	12,755	14,285	12.0
<b>Non-tax revenues</b>	474	427	-9.9
<b>Total budgetary revenues</b>	13,229	14,712	11.2

Non-budgetary transactions resulted in a net requirement of \$5.2 billion in April 2000, up from a net requirement of \$3.6 billion in April 1999. The higher requirement primarily reflected the first instalment of pay equity settlement payments, which amounted to \$1.6 billion. As a result, there was a financial requirement (excluding foreign exchange transactions) of \$2.5 billion in April 2000, compared to a requirement of \$2.0 billion in April 1999.

### Net financial requirement of \$1.3 billion in April 2000

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source

of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$1.1 billion in April 2000, compared to a net requirement of \$0.6 billion in April 1999.

With a budgetary surplus of \$2.7 billion, a net requirement of \$5.2 billion from non-budgetary transactions and a net source of funds of \$1.1 billion from foreign exchange transactions, there was a net financial requirement of \$1.3 billion in April 2000, compared to a net requirement of \$2.7 billion in April 1999.

### Net borrowings down \$5.8 billion

Although there was a net financial requirement of \$1.3 billion in April 2000, the Government still retired \$5.8 billion of market debt that month. This was accomplished by reducing its cash balances by \$7.1 billion. Cash balances at the end of April 2000 amounted to \$5.8 billion.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	April 30, 2000	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,158	19,906	-2,252
Interest and matured debt	8,678	10,119	1,441
Allowances	13,516	11,938	-1,578
Total accounts payable, accruals and allowances	44,352	41,963	-2,389
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,485	127,801	316
Canada Pension Plan (net of securities)	6,262	5,868	-394
Other pension and other accounts	6,749	6,705	-44
Total pension and other accounts	140,496	140,374	-122
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	293,618	295,827	2,209
Treasury bills	99,850	92,600	-7,250
Canada Savings Bonds	26,252	26,426	174
Other	3,426	3,552	126
Subtotal	423,146	418,405	-4,741
Payable in foreign currencies			
Marketable bonds	27,057	25,528	-1,529
Canada bills	6,049	5,575	-474
Canada notes	997	1,053	56
Subtotal	34,103	32,156	-1,947
Total unmaturred debt	457,249	450,561	-6,688
Total interest-bearing debt	597,745	590,935	-6,810
Total liabilities	642,097	632,898	-9,199
<b>Assets</b>			
Cash and accounts receivable	11,513	6,087	-5,426
Foreign exchange accounts	43,911	42,782	-1,129
Loans, investments and advances (net of allowances)	12,849	12,954	105
Total assets	68,273	61,823	-6,450
<b>Accumulated deficit (net public debt)<sup>1</sup></b>	<b>573,824</b>	<b>571,075</b>	<b>-2,749</b>

<sup>1</sup> Assumes fiscal balance of \$3 billion for 1999-2000.

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July 2000



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for May 2000

### Budgetary surplus of \$3.3 billion in May 2000

There was a budgetary surplus of \$3.3 billion in May 2000, up \$1.4 billion from the surplus of \$1.9 billion reported in May 1999. Budgetary revenues were up \$1.8 billion, or 13.6 per cent, while public debt charges declined \$0.1 billion, or 3.6 per cent. Program spending increased \$0.5 billion, or 6.7 per cent.

Higher personal income tax and goods and services tax (GST) revenues accounted for most of the year-over-year increase in budgetary revenues.

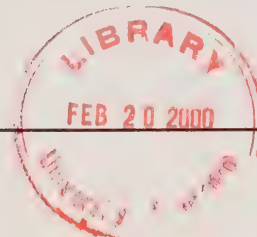
- Personal income tax revenues were up \$0.7 billion, or 10.8 per cent, on a year-over-year basis. This increase primarily reflected higher taxes paid on filing, with respect to the 1999 taxation year, which more than offset the year-over-year decline witnessed in tax on filing in April 2000.
- GST revenues increased \$0.8 billion, or 44.0 per cent, on a year-over-year basis. Most of the increase was attributable to a decline in refunds and rebates, reflecting timing factors. This should be reversed in future months, which would bring the results more in line with the growth in the underlying tax base.
- Among the other major revenue components, corporate income tax revenues increased by 7.6 per cent, employment insurance premium revenues were down 1.4 per cent, reflecting the decline in premium rates, while sales and excise taxes and duties fell by 5.3 per cent.

All major components of program spending were higher on a year-over-year basis, while the decline in public debt charges reflected a decline in the average effective interest rate as the stock of interest-bearing debt was virtually unchanged.

### Year-to-date: budgetary surplus of \$6.1 billion

Over the first two months of fiscal year 2000-01, the budgetary surplus was estimated at \$6.1 billion, up \$2.6 billion from the surplus of \$3.4 billion reported in the same period of 1999-2000.

However, the results to date do not include any impact of the tax reductions measures affecting the current fiscal year, as announced in the 2000 Budget as part of the Government's Five-Year Tax Reduction Plan. The restoration of full indexation of the personal income tax system, the reduction in the middle tax rate from 26 per cent to 24 per cent, increases in the amounts at which the personal income tax rates apply, among others, will restrain the growth in personal income tax revenues, beginning in July 2000. As indicated in *The Budget Plan 2000*, the net fiscal impact of all the tax reduction measures affecting 2000-01 amounts to \$4.6 billion. As such, the budgetary results for the first few months of 2000-01 are not an appropriate indicator of developments over the year as a whole.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	May		April to May	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	13,391	15,212	26,622	29,926
Program spending	-7,962	-8,494	-16,253	-17,092
Operating surplus	5,429	6,718	10,369	12,834
Public debt charges	-3,512	-3,387	-6,924	-6,754
Budgetary balance (deficit/surplus)	1,917	3,331	3,445	6,080
<b>Non-budgetary transactions</b>	4,368	2,602	808	-2,620
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	6,285	5,933	4,253	3,460
<b>Foreign exchange transactions</b>	1,135	827	503	1,956
<b>Net financial balance</b>	7,420	6,760	4,756	5,416
<b>Net change in borrowings</b>	-2,430	149	-7,145	-5,640
<b>Net change in cash balances</b>	4,990	6,909	-2,389	-224

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

### Financial source of \$3.5 billion (excluding foreign exchange transactions) for April and May 2000

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/source measure the difference between cash coming in to the government and cash going out. Financial requirements/source differs from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included

as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of funds of \$2.6 billion in the first two months of 2000-01, compared to a source of \$0.8 billion in the same period last year. The net requirement to date primarily reflected the first instalment of the pay equity settlement payments. As a result, there was a financial source (excluding foreign exchange transactions) of \$3.5 billion in the April/May 2000 period, compared to a financial source of \$4.3 billion recorded in the same period last year.

### Net financial source of \$5.4 billion for April and May 2000

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of



Table 4

## The budgetary balance and financial requirements/source

	May		April to May	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	1,917	3,331	3,445	6,080
<b>Loans, investments and advances</b>				
Crown corporations	-42	7	-106	7
Other	-25	-10	324	96
Total	-67	-3	218	103
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	667	219	445	-175
Superannuation accounts	318	209	682	525
Other	-27	-47	-6	-90
Total	958	381	1,121	260
<b>Other transactions</b>	3,477	2,224	-531	-2,983
<b>Total non-budgetary transactions</b>	4,368	2,602	808	-2,620
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	6,285	5,933	4,253	3,460
<b>Foreign exchange transactions</b>	1,135	827	503	1,956
<b>Net financial balance</b>	7,420	6,760	4,756	5,416

Table 5

## Net financial balance and net borrowings

	May		April to May	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
<b>Net financial balance</b>	7,420	6,760	4,756	5,416
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	4,300	3,362	4,300	5,262
Canada Savings Bonds	-91	-141	-122	-147
Treasury bills	-5,900	-1,700	-9,950	-8,950
Other	227	200	826	200
Subtotal	-1,464	1,721	-4,946	-3,635
Payable in foreign currencies				
Marketable bonds		-2,174		-2,174
Notes and loans				
Canada bills	-966	602	-2,199	169
Canada notes				
Total	-966	-1,572	-2,199	-2,005
<b>Net change in borrowings</b>	-2,430	149	-7,145	-5,640
<b>Change in cash balance</b>	4,990	6,909	-2,389	-224

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	May		Change	April to May		Change
	1999	2000		1999-00	2000-01	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,875	1,972	5.2	3,791	3,969	4.7
Employment insurance benefits	943	906	-3.9	2,022	1,944	-3.9
Total	2,818	2,878	2.1	5,813	5,913	1.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	2,083	2,250	8.0
Fiscal transfers	991	1,064	7.4	1,735	1,895	9.2
Alternative Payments for Standing Programs	-198	-205	3.5	-375	-411	9.6
Total	1,835	1,984	8.1	3,443	3,734	8.5
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	46	14	-69.6	47	22	-53.2
Foreign Affairs	138	89	-35.5	195	144	-26.2
Health	61	125	104.9	116	188	62.1
Human Resources Development	56	60	7.1	83	68	-18.1
Indian and Northern Development	229	317	38.4	1,058	1,158	9.5
Industry and Regional Development	64	124	93.8	155	152	-1.9
Veterans Affairs	114	121	6.1	227	237	4.4
Other	120	96	-20.0	296	340	14.9
Total	828	946	14.3	2,177	2,309	6.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	57	42	-26.3	170	215	26.5
Canada Mortgage and Housing Corporation	155	150	-3.2	300	300	0.0
Other	21	65	209.5	174	205	17.8
Total	233	257	10.3	644	720	11.8
Operating and capital expenditures						
Defence	696	667	-4.2	1,231	1,157	-6.0
All other departmental expenditures	1,552	1,762	13.5	2,945	3,259	10.7
Total	2,248	2,429	8.1	4,176	4,416	5.7
Total direct program spending	3,309	3,632	9.8	6,997	7,445	6.4
<b>Total program expenditures</b>	7,962	8,494	6.7	16,253	17,092	5.2
<b>Public debt charges</b>	3,512	3,387	-3.6	6,924	6,754	-2.5
<b>Total budgetary expenditures</b>	11,474	11,881	3.5	23,177	23,846	2.9
Memorandum item:						
Total transfers	5,481	5,808	6.0	11,433	11,956	4.6

Table 2

## Budgetary revenues

	May		Change	April to May		Change
	1999	2000		1999-00	2000-01	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Income taxes</b>						
Personal income tax	6,569	7,279	10.8	13,127	14,628	11.4
Corporate income tax	1,930	2,076	7.6	3,012	4,039	34.1
Other income tax revenue	143	250	74.8	567	593	4.6
Total income tax	8,642	9,605	11.1	16,706	19,260	15.3
<b>Employment insurance premium revenues</b>	1,800	1,775	-1.4	3,587	3,559	-0.8
<b>Excise taxes and duties</b>						
Goods and services tax	1,750	2,520	44.0	3,849	4,597	19.4
Customs import duties	156	130	-16.7	337	290	-13.9
Sales and excise taxes	719	681	-5.3	1,343	1,293	-3.7
Total excise taxes and duties	2,625	3,331	26.9	5,529	6,180	11.8
<b>Total tax revenues</b>	13,067	14,711	12.6	25,822	28,999	12.3
<b>Non-tax revenues</b>	324	501	54.6	800	927	15.9
<b>Total budgetary revenues</b>	13,391	15,212	13.6	26,622	29,926	12.4

the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$2.0 billion in April/May 2000 period, compared to a net source of \$0.5 billion in the same period last year.

With a budgetary surplus of \$6.1 billion, a net requirement of \$2.6 billion from non-budgetary transactions and a net source of funds of \$2.0 billion from foreign exchange transactions, there was a net financial source of \$5.4 billion in the April/May 2000 period compared to a net source of \$4.8 billion in the same period last year.

### Net borrowings down \$5.6 billion for April and May 2000

With a net financial source of \$5.4 billion in the April/May 2000 period and a reduction in cash balances of \$0.2 billion, the government retired \$5.6 billion of market debt in the April/May 2000 period. Cash balances at the end of May 2000 amounted to \$12.7 billion.



# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities<sup>1</sup>

	March 31, 2000	May 31, 2000	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,158	19,667	-2,491
Interest and matured debt	8,678	11,724	3,046
Allowances	13,516	11,938	-1,578
Total accounts payable, accruals and allowances	44,352	43,329	-1,023
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,485	128,010	525
Canada Pension Plan (net of securities)	6,262	6,087	-175
Other pension and other accounts	6,749	6,659	-90
Total pension and other accounts	140,496	140,756	260
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	293,927	299,189	5,262
Treasury bills	99,850	90,900	-8,950
Canada Savings Bonds	26,432	26,285	-147
Other	3,552	3,752	200
Subtotal	423,761	420,126	-3,635
Payable in foreign currencies			
Marketable bonds	25,528	23,354	-2,174
Canada bills	6,008	6,177	169
Canada notes	1,053	1,053	0
Subtotal	32,589	30,584	-2,005
Total unmaturred debt	456,350	450,710	-5,640
Total interest-bearing debt	596,846	591,466	-5,380
Total liabilities	641,198	634,795	-6,403
<b>Assets</b>			
Cash and accounts receivable	10,614	12,144	1,530
Foreign exchange accounts	43,911	41,955	-1,956
Loans, investments and advances (net of allowances)	12,849	12,952	103
Total assets	67,374	67,051	-323
<b>Accumulated deficit (net public debt)</b>	<b>573,824</b>	<b>567,744</b>	<b>-6,080</b>

<sup>1</sup> Assumes fiscal balance of \$3 billion for 1999-2000.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for June 2000

### Budgetary surplus of \$2.1 billion in June 2000

There was a budgetary surplus of \$2.1 billion in June 2000, up \$0.8 billion from the surplus of \$1.3 billion recorded in June 1999. Budgetary revenues were up \$1.3 billion, or 9.7 per cent. Program spending increased \$0.5 billion, or 5.5 per cent, while public debt charges were virtually unchanged.

Among the major revenue components, on a year-over-year basis:

- Personal income tax revenues were up 13.1 per cent, reflecting a strong growth in deductions from employment income, due to the increase in the number of people employed.
- Corporate income tax revenues increased 27.4 per cent, reflecting the strength in corporate profits and timing factors related to the monthly tax instalment procedures.
- Goods and services tax (GST) revenues were up 24.1 per cent. Part of this increase reflects timing of refunds. While gross receipts were up strongly, refunds were unchanged. The growth in refunds normally closely tracks the growth in gross receipts.
- The remaining major revenue components were lower.

Within program spending, all components were higher, on a year-over-year basis.

- Major transfers to persons were up 1.7 per cent, as the increase in elderly benefits more than offset lower employment insurance benefit payments.

- Major transfers to other levels of government were up 11.0 per cent reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was up 5.6 per cent, reflecting the impact of wage settlements as well as initiatives announced in recent budgets.

### Year-to-date: budgetary surplus of \$8.2 billion

Over the first three months of fiscal year 2000-01, the budgetary surplus was estimated at \$8.2 billion, up \$3.5 billion from the surplus of \$4.7 billion reported in the same period of 1999-2000.

However, the results to date do not include any impact of the tax reductions measures affecting the current fiscal year, as announced in the 2000 Budget as part of the Government's Five-Year Tax Reduction Plan. The restoration of full indexation of the personal income tax system, the reduction in the middle tax rate from 26 per cent to 24 per cent, increases in the amounts at which the personal income tax rates apply, among others, will restrain the growth in personal income tax revenues. As indicated in *The Budget Plan 2000*, the net fiscal impact of all the tax reduction measures affecting 2000-01 amounts to \$4.6 billion. As such, the budgetary results for the first few months of 2000-01 are not an appropriate indicator of developments over the year as a whole.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	June		April to June	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	13,338	14,634	39,958	44,558
Program spending	-8,598	-9,068	-24,850	-26,159
Operating surplus	4,740	5,566	15,108	18,399
Public debt charges	-3,464	-3,450	-10,388	-10,205
Budgetary balance (deficit/surplus)	1,276	2,116	4,720	8,194
<b>Non-budgetary transactions</b>	-6,183	-7,187	-5,371	-9,816
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-4,907	-5,071	-651	-1,621
<b>Foreign exchange transactions</b>	-1,273	730	-770	2,686
<b>Net financial balance</b>	-6,180	-4,341	-1,421	1,065
<b>Net change in borrowings</b>	2,421	353	-4,723	-5,286
<b>Net change in cash balances</b>	-3,759	-3,988	-6,144	-4,221

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Budgetary revenues were up \$4.6 billion, or 11.5 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$2.3 billion, or 12.0 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Over the balance of the year, growth in this component should be restrained as the tax reductions announced in the 2000 Budget come into effect.
- Corporate income tax revenues were up \$1.5 billion, or 31.5 per cent. Although part of this increase reflects the continued strength in corporate profits, the increase is also affected by tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax

liability or their current year's projected tax liability. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. With current monthly instalments largely based on 1999 tax liabilities, the monthly results for 2000-01 may again be misleading.

- Employment insurance premium revenues were down 1.1 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- GST revenues were up \$1.1 billion, or 20.8 per cent. As noted above, about half of this increase is attributable to timing differences between receipts and applicable refunds. Gross receipts are up 11 per cent,



Table 2

## Budgetary revenues

	June		Change	April to June		Change
	1999	2000		1999-00	2000-01	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Income taxes</b>						
Personal income tax	6,378	7,215	13.1	19,506	21,842	12.0
Corporate income tax	1,685	2,141	27.1	4,698	6,180	31.5
Other income tax revenue	186	218	17.2	753	811	7.7
Total income tax	8,249	9,574	16.1	24,957	28,833	15.5
<b>Employment insurance premium revenues</b>	1,779	1,750	-1.6	5,366	5,309	-1.1
<b>Excise taxes and duties</b>						
Goods and services tax	1,529	1,898	24.1	5,377	6,495	20.8
Customs import duties	285	165	-42.1	622	455	-26.8
Sales and excise taxes	825	786	-4.7	2,169	2,079	-4.1
Total excise taxes and duties	2,639	2,849	8.0	8,168	9,029	10.5
<b>Total tax revenues</b>	12,667	14,173	11.9	38,491	43,171	12.2
<b>Non-tax revenues</b>	671	461	-31.3	1,467	1,387	-5.5
<b>Total budgetary revenues</b>	13,338	14,634	9.7	39,958	44,558	11.5

in line with the growth in the applicable tax base. However, refunds are up only 3.7 per cent. This should be reversed in future months, which would bring the net results more in line with the growth in the underlying tax base.

Program spending increased by \$1.3 billion, or 5.3 per cent, in the April to June 2000 period, compared to the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 1.7 per cent, as lower employment insurance benefits offset much of the increase in elderly benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. Lower employment insurance benefit payments were primarily due to a decline in the number of beneficiaries, reflecting the fall in the number of unemployed.

- Major transfers to other levels of government were up 9.3 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 6.1 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 2000 Budget.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	June		Change	April to June		Change
	1999	2000		1999-00	2000-01	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,910	1,967	3.0	5,700	5,936	4.1
Employment insurance benefits	769	757	-1.6	2,791	2,702	-3.2
Total	2,679	2,724	1.7	8,491	8,638	1.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	3,125	3,375	8.0
Fiscal transfers	866	991	14.4	2,601	2,886	11.0
Alternative Payments for Standing Programs	-188	-206	9.6	-563	-617	9.6
Total	1,720	1,910	11.0	5,163	5,644	9.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	26	5	-80.8	73	27	-63.0
Foreign Affairs	34	99	191.2	229	243	6.1
Health	146	66	-54.8	262	254	-3.1
Human Resources Development	193	228	18.1	276	296	7.2
Indian and Northern Development	334	323	-3.3	1,392	1,481	6.4
Industry and Regional Development	108	131	21.3	263	283	7.6
Veterans Affairs	114	118	3.5	341	355	4.1
Other	207	125	-39.6	503	463	-8.0
Total	1,162	1,095	-5.8	3,339	3,402	1.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	35	70	100.0	205	285	39.0
Canada Mortgage and Housing Corporation	152	170	11.8	452	470	4.0
Other	129	144	11.6	303	349	15.2
Total	316	384	21.5	960	1,104	15.0
Operating and capital expenditures						
Defence	767	874	14.0	1,998	2,032	1.7
All other departmental expenditures	1,954	2,081	6.5	4,899	5,339	9.0
Total	2,721	2,955	8.6	6,897	7,371	6.9
Total direct program spending	4,199	4,434	5.6	11,196	11,877	6.1
<b>Total program expenditures</b>	8,598	9,068	5.5	24,850	26,159	5.3
<b>Public debt charges</b>	3,464	3,450	-0.4	10,388	10,205	-1.8
<b>Total budgetary expenditures</b>	12,062	12,518	3.8	35,238	36,364	3.2
Memorandum item:						
Total transfers	5,561	5,729	3.0	16,993	17,684	4.1

Public debt charges were down 1.8 per cent, due to a decline in the stock of interest-bearing debt as the average effective interest rate was up somewhat.

## **Financial requirement of \$1.6 billion (excluding foreign exchange transactions) for April to June 2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.8 billion in the first three months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5 billion Canada Health and Social Transfer cash supplement, as announced in the 2000 Budget, as well as the first instalment of pay equity settlement. As a result, there was a financial requirement (excluding foreign exchange transactions) of \$1.6 billion in April to June 2000 period, compared to a requirement of \$0.7 billion in the same period last year.

## **Net financial source of \$1.1 billion for April to June 2000**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$2.7 billion in the first three months of 2000-01, compared to a net requirement of \$0.8 billion in the same period last year.

With a budgetary surplus of \$8.2 billion, a net requirement of \$9.8 billion from non-budgetary transactions and a net source of funds of \$2.7 billion from foreign exchange transactions, there was a net financial source of \$1.1 billion in April to June 2000 period, compared to a net requirement of \$1.4 billion in the same period last year.

## **Net borrowings down \$5.3 billion for April to June 2000.**

With this net financial source of \$1.1 billion and a reduction in cash balances of \$4.2 billion, the government retired \$5.3 billion of market debt in the first three months of 2000-01. Cash balances at June 30<sup>th</sup> amounted to \$8.7 billion.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	June		April to June	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	1,276	2,116	4,720	8,194
<b>Loans, investments and advances</b>				
Crown corporations	-32	188	-137	196
Other	126	18	450	113
Total	94	206	313	309
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-175	150	271	-26
Superannuation accounts	373	68	1,056	593
Other	-102	-134	-108	-227
Total	96	84	1,219	340
<b>Other transactions</b>	-6,373	-7,477	-6,903	-10,464
<b>Total non-budgetary transactions</b>	-6,183	-7,187	-5,371	-9,816
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-4,907	-5,071	-651	-1,621
<b>Foreign exchange transactions</b>	-1,273	730	-770	2,686
<b>Net financial balance</b>	-6,180	-4,341	-1,421	-1,065

Table 5

## Net financial balance and net borrowings

	June		April to June	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
<b>Net financial balance</b>	-6,180	-4,341	-1,421	1,065
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	5,987	3,963	10,287	9,226
Canada Savings Bonds	-882	-256	-1,003	-403
Treasury bills	-2,400	-3,600	-12,350	-12,550
Other	173	500	999	700
Subtotal	2,878	607	-2,067	-3,027
Payable in foreign currencies				
Marketable bonds				-2,174
Notes and loans				
Canada bills	-457	-254	-2,656	-85
Canada notes				
Total	-457	-254	-2,656	-2,259
<b>Net change in borrowings</b>	-2,421	353	-4,723	-5,286
<b>Change in cash balance</b>	-3,759	-3,988	-6,144	-4,221

Table 6

## Condensed statement of assets and liabilities<sup>1</sup>

	March 31, 2000	June 30, 2000	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,158	16,317	-5,841
Interest and matured debt	8,678	11,724	3,046
Allowances	13,516	11,838	-1,678
Total accounts payable, accruals and allowances	44,352	39,879	-4,473
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,485	128,078	593
Canada Pension Plan (net of securities)	6,262	6,236	-26
Other pension and other accounts	6,749	6,522	-227
Total pension and other accounts	140,496	140,836	340
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	293,927	303,153	9,226
Treasury bills	99,850	87,300	-12,550
Canada Savings Bonds	26,432	26,029	-403
Other	3,552	4,252	700
Subtotal	423,761	420,734	-3,027
Payable in foreign currencies			
Marketable bonds	25,528	23,354	-2,174
Canada bills	6,008	5,923	-85
Canada notes	1,053	1,053	0
Subtotal	32,589	30,330	-2,259
Total ununmatured debt	456,350	451,064	-5,286
Total interest-bearing debt	596,846	592,011	-4,835
Total liabilities	641,198	631,778	-9,420
<b>Assets</b>			
Cash and accounts receivable	10,614	6,393	-4,221
Foreign exchange accounts	43,911	46,597	2,686
Loans, investments and advances (net of allowances)	12,849	13,158	309
Total assets	67,374	66,148	-1,226
<b>Accumulated deficit (net public debt)</b>	573,824	565,630	-8,194

<sup>1</sup> Assumes fiscal balance of \$3 billion for 1999-2000.

# The Fiscal Monitor

Table 7

## Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
	(millions of dollars)							
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
Less:								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	2,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
<b>Net GST</b>	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127	123
<b>Gains from wind-up of interest in Crown corporations/ disposal of shares</b>	2	110			325			
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: *Public Accounts of Canada*.

### The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to

the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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August 2000





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for July 2000

### Budgetary surplus of \$3.2 billion in July 2000

There was a budgetary surplus of \$3.2 billion in July 2000, up \$2.3 billion from the surplus of \$0.9 billion recorded in July 1999. Budgetary revenues were up \$3.0 billion, or 23.6 per cent. Program spending increased \$0.7 billion, or 8.5 per cent, while public debt charges were virtually unchanged.

Among the major revenue components, on a year-over-year basis:

- Personal income tax revenues were up \$1.9 billion, or 31.9 per cent. This increase reflected continued strong growth in deductions from employment income, due to the increase in the number of people employed, as well as timing factors related to the receipt of payments and adjustments related to under-reporting in previous months. These factors more than offset the impact of the 2000 Budget measures, which came into effect in July. It is expected that the impact of the tax reductions will be clearly reflected in the August 2000 results.
- Corporate income tax revenues increased by \$1 billion, or 57.9 per cent, reflecting the strength in corporate profits and timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were also up strongly, reflecting the growth in corporate profits.

- Goods and services tax (GST) revenues were down 1.8 per cent, reflecting a catch-up in the processing of refunds. The remaining components of excise taxes and duties were lower.
- Non-tax revenues were up \$0.1 billion. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

Within program spending, all components were higher, on a year-over-year basis.

- Major transfers to persons were up 1.5 per cent, as both elderly and employment insurance (EI) benefit payments were higher.
- Major transfers to other levels of government were up 9.4 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was up 13.2 per cent, reflecting the impact of wage settlements as well as initiatives announced in recent budgets.

### Year-to-date: budgetary surplus of \$11.4 billion

Over the first four months of fiscal year 2000-01, the budgetary surplus was estimated at \$11.4 billion, up \$5.8 billion from the surplus of \$5.6 billion reported in the same period of 1999-2000.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	July		April to July	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	12,758	15,768	52,716	60,327
Program spending	-8,381	-9,097	-33,231	-35,257
Operating surplus	4,377	6,671	19,485	25,070
Public debt charges	-3,506	-3,499	-13,895	-13,703
Budgetary balance (deficit/surplus)	871	3,172	5,590	11,367
<b>Non-budgetary transactions</b>	-33	844	-5,406	-8,965
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	838	4,016	184	2,402
<b>Foreign exchange transactions</b>	1,305	-729	535	1,957
<b>Net financial balance</b>	2,143	3,287	719	4,359
<b>Net change in borrowings</b>	2,458	-7,636	-2,265	-12,921
<b>Net change in cash balances</b>	4,601	-4,349	-1,546	-8,562

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

However, the results to date do not include the full impact of the tax reduction measures affecting the current fiscal year, as announced in the 2000 budget as part of the Government's Five-Year Tax Reduction Plan. For example, the restoration of full indexation of the personal income tax system, the reduction in the middle tax rate from 26 per cent to 24 per cent and increases in the amounts at which the personal income tax rates apply will restrain the growth in personal income tax revenues over the balance of the fiscal year. As indicated in *The Budget Plan 2000*, the net fiscal impact of all the tax reduction measures affecting 2000-01 amounts to \$4.6 billion. In addition, the annual growth in both corporate income tax and GST revenues is overstated due to timing considerations. For example, based on the final settlement period payments for 1999-2000, monthly corporate income tax revenues for the first seven months of 1999-2000 were understated by an average of

\$0.6 billion per month. As such, the budgetary results for the first few months of 2000-01 are not an appropriate indicator of developments over the year as a whole.

Budgetary revenues were up \$7.6 billion, or 14.4 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$4.3 billion, or 16.7 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Over the balance of the fiscal year, growth in this component should be restrained as the tax reductions announced in the 2000 budget come into effect.

Table 2  
Budgetary revenues

	July		Change	April to July		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,102	8,047	31.9	25,608	29,890	16.7
Corporate income tax	1,649	2,603	57.9	6,346	8,783	38.4
Other income tax revenue	205	309	50.7	958	1,120	16.9
Total income tax	7,956	10,959	37.7	32,912	39,793	20.9
<b>Employment insurance premium revenues</b>	1,697	1,667	-1.8	7,063	6,976	-1.2
<b>Excise taxes and duties</b>						
Goods and services tax	1,771	1,739	-1.8	7,149	8,233	15.2
Customs import duties	221	201	-9.0	843	656	-22.2
Sales and excise taxes	725	658	-9.2	2,896	2,738	-5.5
Total excise taxes and duties	2,717	2,598	-4.4	10,888	11,627	6.8
<b>Total tax revenues</b>	12,370	15,224	23.1	50,863	58,396	14.8
<b>Non-tax revenues</b>	388	544	40.2	1,853	1,931	4.2
<b>Total budgetary revenues</b>	12,758	15,768	23.6	52,716	60,327	14.4

- Corporate income tax revenues were up \$2.4 billion, or 38.4 per cent. Although part of this increase reflects the continued strength in corporate profits, the increase is also affected by tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Corporations have 60 days from the end of their taxation year to remit their final settlement payments. Last February, record settlement payments were made relating to underpayments during the course of the 1999 taxation year, with the result that it is estimated that monthly instalments for

the first seven months were understated by an average of \$0.6 billion per month. With current monthly instalments largely based on 1999 tax liabilities, the year-over-year changes are misleading.

- EI premium revenues were down 1.2 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- GST revenues were up \$1.1 billion, or 15.2 per cent. Although refunds picked up strongly in July, they are trailing the growth in gross receipts. This should be reversed in future months, which would bring the net results more in line with the growth in the underlying tax base.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	July		Change	April to July		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,986	2,012	1.3	7,686	7,948	3.4
Employment insurance benefits	793	809	2.0	3,584	3,511	-2.0
Total	2,779	2,821	1.5	11,270	11,459	1.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	4,167	4,500	8.0
Fiscal transfers	880	978	11.1	3,480	3,862	11.0
Alternative Payments for Standing Programs	-188	-206	9.6	-750	-822	9.6
Total	1,734	1,897	9.4	6,897	7,540	9.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	23	27	17.4	96	54	-43.8
Foreign Affairs	127	102	-19.7	356	346	-2.8
Health	47	99	110.6	309	353	14.2
Human Resources Development	150	115	-23.3	426	411	-3.5
Indian and Northern Development	278	262	-5.8	1,670	1,743	4.4
Industry and Regional Development	136	82	-39.7	399	365	-8.5
Veterans Affairs	117	123	5.1	458	478	4.4
Other	214	73	-65.9	717	883	23.2
Total	1,092	883	-19.1	4,431	4,633	4.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	50	86	72.0	255	371	45.5
Canada Mortgage and Housing Corporation	143	150	4.9	595	620	4.2
Other	93	128	37.6	396	475	19.9
Total	286	364	27.3	1,246	1,466	17.7
Operating and capital expenditures						
Defence	795	948	19.2	2,795	2,979	6.6
All other departmental expenditures	1,695	2,184	28.8	6,592	7,180	8.9
Total	2,490	3,132	25.8	9,387	10,159	8.2
Total direct program spending	3,868	4,379	13.2	15,064	16,258	7.9
<b>Total program expenditures</b>	8,381	9,097	8.5	33,231	35,257	6.1
<b>Public debt charges</b>	3,506	3,499	-0.2	13,895	13,703	-1.4
<b>Total budgetary expenditures</b>	11,887	12,596	6.0	47,126	48,960	3.9
Memorandum item:						
Total transfers	5,605	5,601	-0.1	22,598	23,632	4.6

Program spending increased by \$2.0 billion, or 6.1 per cent, in the April to July 2000 period, compared to the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 1.7 per cent, as higher elderly benefits more than offset the decline in EI benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments reflects a lower number of beneficiaries due to the decline in the number of unemployed.
- Major transfers to other levels of government were up 9.3 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 7.9 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 2000 budget.

Public debt charges were down 1.4 per cent, primarily reflecting a decline in the stock of interest-bearing debt.

## **Financial source of \$2.4 billion (excluding foreign exchange transactions) for April to July 2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.0 billion in first four months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as the first instalment of the pay equity settlement. As a result, there was a financial source (excluding foreign exchange transactions) of \$2.4 billion in April to July 2000 period, compared to a net source of \$0.2 billion in the same period last year.

## **Net financial source of \$4.4 billion for April to July 2000**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	July		April to July	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	871	3,172	5,590	11,367
<b>Loans, investments and advances</b>				
Crown corporations	27	-112	-110	83
Other	-94	49	356	162
<b>Total</b>	<b>-67</b>	<b>-63</b>	<b>246</b>	<b>245</b>
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-471	-865	-201	-890
Superannuation accounts	383	371	1,438	966
Other	-17	11	-125	-216
<b>Total</b>	<b>-105</b>	<b>-483</b>	<b>1,112</b>	<b>-140</b>
<b>Other transactions</b>	<b>139</b>	<b>1,390</b>	<b>-6,764</b>	<b>-9,070</b>
<b>Total non-budgetary transactions</b>	<b>-33</b>	<b>844</b>	<b>-5,406</b>	<b>-8,965</b>
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	<b>838</b>	<b>4,016</b>	<b>184</b>	<b>2,402</b>
<b>Foreign exchange transactions</b>	<b>1,305</b>	<b>-729</b>	<b>535</b>	<b>1,957</b>
<b>Net financial balance</b>	<b>2,143</b>	<b>3,287</b>	<b>719</b>	<b>4,359</b>

Table 5

## Net financial balance and net borrowings

	July		April to July	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Net financial balance</b>	<b>2,143</b>	<b>3,287</b>	<b>719</b>	<b>4,359</b>
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	—	-3,075	10,287	6,151
Canada Savings Bonds	154	-151	-849	-553
Treasury bills	3,150	-4,200	-9,200	-16,750
Other	247	225	1,246	925
<b>Total</b>	<b>3,551</b>	<b>-7,201</b>	<b>1,484</b>	<b>-10,227</b>
Payable in foreign currencies				
Marketable bonds	—	—	—	-2,174
Notes and loans	—	—	—	—
Canada bills	-867	-435	-3,523	-520
Canada notes	-226	—	-226	—
<b>Total</b>	<b>1,093</b>	<b>-435</b>	<b>-3,749</b>	<b>-2,694</b>
<b>Net change in borrowings</b>	<b>2,458</b>	<b>-7,636</b>	<b>-2,265</b>	<b>-12,921</b>
<b>Change in cash balance</b>	<b>4,601</b>	<b>-4,349</b>	<b>-1,546</b>	<b>-8,562</b>



Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	July 31, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	20,551	15,451	-5,100
Interest and matured debt	8,353	8,430	77
Allowances	11,844	7,797	-4,047
Total accounts payable, accruals and allowances	40,748	31,678	-9,070
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,312	966
Canada Pension Plan (net of securities)	6,217	5,327	-890
Other pension and other accounts	6,963	6,747	-216
Total pension and other accounts	141,526	141,386	-140
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	300,078	6,151
Treasury bills	99,850	83,100	-16,750
Canada Savings Bonds	26,489	25,936	-553
Non-marketable bonds and bills	3,552	4,477	925
Subtotal	423,818	413,591	-10,227
Payable in foreign currencies	32,588	29,894	-2,694
Total unmaturred debt	456,406	443,485	-12,921
Total interest-bearing debt	597,932	584,871	-13,061
Total liabilities	638,680	616,549	-22,131
<b>Assets</b>			
Cash and accounts receivable	18,864	10,302	-8,562
Foreign exchange accounts	41,494	39,537	-1,957
Loans, investments and advances (net of allowances)	13,796	13,551	-245
Total assets	74,154	63,390	-10,764
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>553,159</b>	<b>-11,367</b>

It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$2.0 billion in the first four months of 2000-01, compared to a net source of \$0.5 billion in the same period last year.

With a budgetary surplus of \$11.4 billion, a net requirement of \$9.0 billion from non-budgetary transactions and a net source of funds of \$2.0 billion from foreign exchange transactions, there was a net financial source of \$4.4 billion in the April to July 2000 period, compared to a net source of \$0.7 billion in the same period last year.

## **Net borrowings down \$12.9 billion for April to July 2000**

With this net financial source of \$4.4 billion and a reduction in cash balances of \$8.6 billion, the Government retired \$12.9 billion of market debt in the first four months of 2000-01. Cash balances at July 31 amounted to \$4.4 billion.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for August 2000

### Budgetary deficit of \$1.2 billion in August 2000

There was a budgetary deficit of \$1.2 billion in August 2000, compared to a surplus of \$0.6 billion in August 1999. Budgetary revenues were down \$1 billion, or 8.0 per cent, program spending increased \$0.4 billion, or 4.9 per cent, and public debt charges were up \$0.3 billion, or 10.3 per cent.

Among the major revenue components, on a year-over-year basis:

- Personal income tax revenues were down \$0.7 billion, or 12.8 per cent. This decline primarily reflected the impact of the Budget 2000 tax reduction measures, which came into effect on July 1, 2000: the restoration of full indexation of the personal income tax system, the reduction in the middle tax rate from 26 per cent to 24 per cent and increases in the amounts at which the personal income tax rates apply.
- Corporate income tax revenues declined by \$0.3 billion, or 21.4 per cent, primarily reflecting timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were also lower, reflecting the timing factors.
- Goods and services tax (GST) revenues were down \$0.2 billion, or 7.9 per cent, reflecting a slowdown in gross collections and a catch-up in the processing of refunds. Customs import duties were up strongly, due to misallocation in previous months, while other excise taxes and duties were lower.

- Non-tax revenues were up slightly. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

Within program spending, on a year-over-year basis:

- Major transfers to persons were down 2.2 per cent, as lower employment insurance (EI) benefit payments, reflecting the improvement in the labour market situation, more than offset higher elderly benefits.
- Major transfers to other levels of government were up 10.3 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was up 7.5 per cent, reflecting the impact of wage settlements as well as initiatives announced in recent budgets.

### Year-to-date: budgetary surplus of \$10.1 billion

Over the first five months of fiscal year 2000-01, the budgetary surplus was estimated at \$10.1 billion, up \$4.0 billion from the surplus of \$6.2 billion reported in the same period of 1999-2000.

The monthly financial results can be very volatile, reflecting the impact of the timing of receipts and payments and budget measures. In particular, monthly balances can be strongly impacted by the timing of personal income tax instalment payments and corporate income tax settlement payments. For example, quarterly





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	August		April to August	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	12,367	11,379	65,083	71,706
Program spending	-8,602	-9,021	-41,835	-44,358
Operating surplus	3,765	2,358	23,248	27,348
Public debt charges	-3,193	-3,521	-17,087	-17,225
Budgetary balance (deficit/surplus)	572	-1,163	6,161	10,123
<b>Non-budgetary transactions</b>	1,016	2,785	-4,384	-6,100
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,588	1,622	1,777	4,023
<b>Foreign exchange transactions</b>	-859	-2,187	-324	-230
<b>Net financial balance</b>	729	-565	1,453	3,793
<b>Net change in borrowings</b>	878	6,729	-1,388	-6,193
<b>Net change in cash balances</b>	1,607	6,164	65	-2,400

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

personal income tax instalment payments have a strong impact in September and December while corporate income tax settlement payments affect December and February. In contrast, in the remaining months, based on previous years' experience, revenue flows are relatively weaker. As such, caution should be exercised in extrapolating results to date to derive estimates for the year as a whole.

Budgetary revenues were up \$6.6 billion, or 10.2 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$3.6 billion, or 11.4 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year

increase. Over the balance of the fiscal year, growth in this component will be restrained as the full impact of tax reductions announced in the 2000 budget is realized.

- Corporate income tax revenues were up \$2.2 billion, or 28.6 per cent. Although part of this increase reflects the continued strength in corporate profits, the increase is also affected by tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Corporations have 60 days from the end of their taxation year to remit their final settlement payments. Last February, record

Table 2

## Budgetary revenues

	August		Change	April to August		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,701	4,972	-12.8	31,308	34,862	11.4
Corporate income tax	1,236	971	-21.4	7,582	9,754	28.6
Other income tax revenue	277	156	-43.7	1,236	1,275	3.2
Total income tax	7,214	6,099	-15.5	40,126	45,891	14.4
<b>Employment insurance premium revenues</b>	1,531	1,520	-0.7	8,594	8,497	-1.1
<b>Excise taxes and duties</b>						
Goods and services tax	2,240	2,062	-7.9	9,390	10,295	9.6
Customs import duties	164	463	182.3	1,007	1,119	11.1
Sales and excise taxes	743	703	-5.4	3,640	3,443	-5.4
Total excise taxes and duties	3,147	3,228	2.6	14,037	14,857	5.8
<b>Total tax revenues</b>	11,892	10,847	-8.8	62,757	69,245	10.3
<b>Non-tax revenues</b>	475	532	12.0	2,326	2,461	5.8
<b>Total budgetary revenues</b>	12,367	11,379	-8.0	65,083	71,706	10.2

settlement payments were made relating to underpayments during the course of the 1999 taxation year, with the result that it is estimated that monthly instalments for the first seven months were understated by an average of \$0.6 billion per month. With current monthly instalments largely based on 1999 tax liabilities, the year-over-year changes are misleading.

- EI premium revenues were down 1.1 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$0.8 billion, or 5.8 per cent. GST revenues were up \$0.9 billion, or 9.6 per cent, reflecting the growth in consumer demand, while customs import duties rose

\$0.1 billion. In contrast, sales and excise taxes were \$0.2 billion, or 5.4 per cent, lower.

- Non-tax revenues were up \$0.1 billion, or 5.8 per cent.

Program spending increased by \$2.5 billion, or 6.0 per cent, in the April to August 2000 period, compared to the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 0.9 per cent, as higher elderly benefits more than offset the decline in EI benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments reflects a lower number of beneficiaries due to the decline in the number of unemployed.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	August		Change	April to August		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,865	1,884	1.0	9,552	9,833	2.9
Employment insurance benefits	955	874	-8.5	4,539	4,385	-3.4
Total	2,820	2,758	-2.2	14,091	14,218	0.9
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	5,209	5,625	8.0
Fiscal transfers	866	978	12.9	4,347	4,839	11.3
Alternative Payments for Standing Programs	-188	-206	9.6	-938	-1,028	9.6
Total	1,720	1,897	10.3	8,618	9,436	9.5
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	50	93	86.0	146	147	0.7
Foreign Affairs	155	180	16.1	510	526	3.1
Health	121	65	-46.3	430	418	-2.8
Human Resources Development	32	15	-53.1	458	426	-7.0
Indian and Northern Development	261	282	8.0	1,932	2,025	4.8
Industry and Regional Development	147	150	2.0	546	515	-5.7
Veterans Affairs	115	120	4.3	573	598	4.4
Other	114	72	-36.8	831	958	15.3
Total	995	977	-1.8	5,426	5,613	3.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	85	79	-7.1	340	450	32.4
Canada Mortgage and Housing Corporation	150	150	0.0	745	770	3.4
Other	67	141	110.4	464	617	33.0
Total	302	370	22.5	1,549	1,837	18.6
Operating and capital expenditures						
Defence	1,032	921	-10.8	3,826	3,899	1.9
All other departmental expenditures	1,733	2,098	21.1	8,325	9,355	12.4
Total	2,765	3,019	9.2	12,151	13,254	9.1
Total direct program spending	4,062	4,366	7.5	19,126	20,704	8.3
<b>Total program expenditures</b>	8,602	9,021	4.9	41,835	44,358	6.0
<b>Public debt charges</b>	3,193	3,521	10.3	17,087	17,225	0.8
<b>Total budgetary expenditures</b>	11,795	12,542	6.3	58,922	61,583	4.5
<b>Memorandum item:</b>						
Total transfers	5,535	5,632	1.8	28,135	29,267	4.0



- Major transfers to other levels of government were up 9.5 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflects the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements is attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 8.3 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in recent budgets.

Public debt charges were up 0.8 per cent, as the impact of somewhat higher interest rates more than offset the decline in the stock of interest-bearing debt.

## **Financial source of \$4.0 billion (excluding foreign exchange transactions) for April to August 2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions

in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$6.1 billion in the first five months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as the first instalment of the pay equity settlement.

As a result, with a budgetary surplus of \$10.1 billion and a net requirement of \$6.1 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$4.0 billion in the April to August 2000 period, compared to a net source of \$1.8 billion in the same period last year.

## **Net financial source of \$3.8 billion for April to August 2000**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	August		April to August	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	572	-1,163	6,161	10,123
<b>Loans, investments and advances</b>				
Crown corporations	60	23	-50	106
Other	-186	-21	171	141
Total	-126	2	121	247
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-247	224	-448	-666
Superannuation accounts	390	465	1,829	1,430
Other	14	1	-111	-215
Total	157	690	1,270	549
<b>Other transactions</b>	985	2,093	-5,775	-6,896
<b>Total non-budgetary transactions</b>	1,016	2,785	-4,384	-6,100
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,588	1,622	1,777	4,023
<b>Foreign exchange transactions</b>	-859	-2,187	-324	-230
<b>Net financial balance</b>	729	-565	1,453	3,793

Table 5

## Net financial balance and net borrowings

	August		April to August	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Net financial balance</b>	729	-565	1,453	3,793
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-800	4,800	9,487	10,951
Canada Savings Bonds	139	-138	-710	-692
Treasury bills	1,750	2,900	-7,450	-13,850
Other	49	-467	1,295	458
Total	1,138	7,095	2,622	-3,133
Payable in foreign currencies				
Marketable bonds	-113	-	-113	-2,174
Notes and loans	-	-	-	-
Canada bills	-147	-366	-3,671	-886
Canada notes	-	-	-226	-
Total	-260	-366	-4,010	-3,060
<b>Net change in borrowings</b>	878	6,729	-1,388	-6,193
<b>Change in cash balance</b>	1,607	6,164	65	-2,400

Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	August 31, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	33,852	-6,896
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,776	1,430
Canada Pension Plan (net of securities)	6,217	5,551	-666
Other pension and other accounts	6,963	6,748	-215
Total pension and other accounts	141,526	142,075	549
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	304,878	10,951
Treasury bills	99,850	86,000	-13,850
Canada Savings Bonds	26,489	25,797	-692
Non-marketable bonds and bills	3,552	4,010	458
Subtotal	423,818	420,685	-3,133
Payable in foreign currencies	32,588	29,528	-3,060
Total unmaturred debt	456,406	450,213	-6,193
Total interest-bearing debt	597,932	592,288	-5,644
Total liabilities	638,680	626,140	-12,540
<b>Assets</b>			
Cash and accounts receivable	18,864	16,464	-2,400
Foreign exchange accounts	41,494	41,724	230
Loans, investments and advances (net of allowances)	13,796	13,549	-247
Total assets	74,154	71,737	-2,417
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>554,403</b>	<b>-10,123</b>



Taking all of these factors into account, there was a net requirement of \$0.2 billion in the first five months of 2000-01, compared to a net requirement of \$0.3 billion in the same period last year.

With a budgetary surplus of \$10.1 billion, a net requirement of \$6.1 billion from non-budgetary transactions and a net requirement of funds of \$0.2 billion from foreign exchange transactions, there was a net financial source of \$3.8 billion in the April to August 2000 period, compared to a net source of \$1.5 billion in the same period last year.

## **Net borrowings down \$6.2 billion for April to August 2000**

With this net financial source of \$3.8 billion and a reduction in cash balances of \$2.4 billion, the Government retired \$6.2 billion of market debt in the first five months of 2000-01. Cash balances at August 31 amounted to \$10.6 billion.



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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for September 2000

### Budgetary surplus of \$3.3 billion in September 2000

There was a budgetary surplus of \$3.3 billion in September 2000, compared to a surplus of \$1.9 billion in September 1999. All of the year-over-year increase in the surplus was attributable to higher budgetary revenues, up 10.4 per cent, or \$1.5 billion. Program spending increased by \$84 million while public debt charges were virtually unchanged.

Among the major revenue components, on a year-over-year basis:

- Personal income tax revenues were up \$0.8 billion, or 10.4 per cent. This increase reflected continued strong growth in deductions from employment income, due to the increase in the number of people employed, as well as timing factors related to the receipt of payments. These factors more than offset the impact of the 2000 budget measures, which came into effect in July.
- Corporate income tax revenues increased \$0.4 billion, or 33.8 per cent, primarily reflecting timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were lower, reflecting timing factors.
- Employment insurance (EI) premium revenues were up slightly due to a transfer from personal income tax revenues relating to underpayments with respect to the 1999 taxation year.

- Excise taxes and duties were up \$0.1 billion, or 3.6 per cent, as lower goods and services tax (GST) revenues, reflecting higher rebates and refunds, were more than offset by higher customs import duties and sales and excise taxes.
- Non-tax revenues were up. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

Within program spending, on a year-over-year basis:

- Major transfers to persons were up 4.4 per cent, as higher elderly benefit payments more than offset lower EI benefit payments.
- Major transfers to other levels of government were up 11.0 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was down 5.1 per cent, reflecting timing factors.

### Year-to-date: budgetary surplus of \$13.5 billion

Over the first six months of fiscal year 2000-01, the budgetary surplus was estimated at \$13.5 billion, up \$5.4 billion from the surplus of \$8.1 billion reported in the same period of 1999-2000. These results are in line with the average private sector forecast of the fiscal surplus for 2000-01 of \$17 billion, as set out in the October 18, 2000, *Economic Statement and Budget Update*.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	September		April to September	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,132	15,596	79,216	87,302
Program spending	-8,747	-8,831	-50,569	-53,105
Operating surplus	5,385	6,765	28,647	34,197
Public debt charges	-3,461	-3,472	-20,549	-20,697
Budgetary balance (deficit/surplus)	1,924	3,293	8,098	13,500
<b>Non-budgetary transactions</b>	178	196	-4,224	-5,986
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,102	3,489	3,874	7,514
<b>Foreign exchange transactions</b>	501	667	177	437
<b>Net financial balance</b>	2,603	4,156	4,051	7,951
<b>Net change in borrowings</b>	-9,312	-12,116	-10,701	-18,309
<b>Net change in cash balances</b>	-6,709	-7,960	-6,650	-10,358

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Budgetary revenues were up \$8.1 billion, or 10.2 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$4.4 billion, or 11.2 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, contributed to the year-over-year increase. Over the balance of the fiscal year, growth in this component will be restrained as the impact of tax reductions announced in the 2000 budget and the *Economic Statement and Budget Update* is realized.
- Corporate income tax revenues were up \$2.6 billion, or 29.3 per cent. Although part of this increase reflects the continued strength in corporate profits, the increase is also affected by tax instalment procedures.

Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Corporations have 60 days from the end of their taxation year to remit their final settlement payments. Last February, record settlement payments were made relating to underpayments during the course of the 1999 taxation year. Thus, it is estimated that instalments for the first seven months were understated by an average of \$0.6 billion per month. With current monthly instalments largely based on 1999 tax liabilities, the year-over-year changes to date are misleading.



Table 2

## Budgetary revenues

	September		Change	April to September		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,770	8,580	10.4	39,078	43,443	11.2
Corporate income tax	1,192	1,595	33.8	8,775	11,349	29.3
Other income tax revenue	204	164	-19.6	1,440	1,439	-0.1
Total income tax	9,166	10,339	12.8	49,293	56,231	14.1
<b>Employment insurance premium revenues</b>	1,398	1,437	2.8	9,992	9,934	-0.6
<b>Excise taxes and duties</b>						
Goods and services tax	2,214	2,103	-5.0	11,603	12,398	6.9
Customs import duties	162	220	35.8	1,169	1,339	14.5
Sales and excise taxes	638	798	25.1	4,278	4,240	-0.9
Total excise taxes and duties	3,014	3,121	3.6	17,050	17,977	5.4
<b>Total tax revenues</b>	13,578	14,897	9.7	76,335	84,144	10.2
<b>Non-tax revenues</b>	554	699	26.2	2,881	3,160	9.7
<b>Total budgetary revenues</b>	14,132	15,596	10.4	79,216	87,302	10.2

- EI premium revenues were down 0.6 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$0.9 billion, or 5.4 per cent. GST revenues were up \$0.8 billion, or 6.9 per cent – this is somewhat less than the growth in consumer demand, reflecting strong growth in the payment of refunds and rebates. Customs import duties were up strongly, while sales and excise taxes were lower.
- Non-tax revenues were up \$0.3 billion, or 9.7 per cent.

Program spending increased by \$2.5 billion, or 5.0 per cent, in the April to September 2000 period, over the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 1.4 per cent, as higher elderly benefits more than offset the decline in EI benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments reflects a lower number of beneficiaries due to the decline in the number of unemployed.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

Budgetary expenditures						
	September			April to September		
	1999	2000	Change	1999-00	2000-01	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,997	2,121	6.2	11,548	11,953	3.5
Employment insurance benefits	679	672	-1.0	5,218	5,056	-3.1
Total	2,676	2,793	4.4	16,766	17,009	1.4
Other levels of government						
Canada Health and Social Transfer	1,041	1,125	8.1	6,250	6,750	8.0
Fiscal transfers	867	988	14.0	5,214	5,831	11.8
Alternative Payments for Standing Programs	-188	-204	8.5	-1,126	-1,233	9.5
Total	1,720	1,909	11.0	10,338	11,348	9.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	121	107	-11.6	267	255	-4.5
Foreign Affairs	136	41	-69.6	647	566	-12.5
Health	72	148	105.6	501	566	13.0
Human Resources Development	249	33	-86.7	707	459	-35.1
Indian and Northern Development	320	444	38.8	2,252	2,470	9.7
Industry and Regional Development	64	92	43.8	610	606	-0.7
Veterans Affairs	115	120	4.3	689	718	4.2
Other	151	75	-50.3	984	1,032	14.9
Total	1,228	1,060	-13.7	6,657	6,672	0.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	79	65	-17.7	420	515	22.6
Canada Mortgage and Housing Corporation	151	150	-0.7	895	920	2.8
Other	63	90	42.9	526	708	34.6
Total	293	305	4.1	1,841	2,143	16.4
Operating and capital expenditures						
Defence	970	873	-10.0	4,796	4,773	-0.5
All other departmental expenditures	1,860	1,891	1.7	10,171	11,160	9.7
Total	2,830	2,764	-2.3	14,967	15,933	6.5
Total direct program spending	4,351	4,129	-5.1	23,465	24,748	5.5
<b>Total program expenditures</b>	8,747	8,831	1.0	50,569	53,105	5.0
<b>Public debt charges</b>	3,461	3,472	0.3	20,549	20,697	0.7
<b>Total budgetary expenditures</b>	12,208	12,303	0.8	71,118	73,802	3.8
Memorandum item:						
Total transfers	5,624	5,762	2.5	33,761	35,029	3.8

- Major transfers to other levels of government were up 9.8 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 5.5 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in recent budgets.

Public debt charges were up 0.7 per cent, as the impact of somewhat higher interest rates more than offset a decline in the stock of interest-bearing debt.

## **Financial source of \$7.5 billion (excluding foreign exchange transactions) for April to September 2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified

purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$6.0 billion in the first six months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as to payments related to the pay equity settlement.

As a result, with a budgetary surplus of \$13.5 billion and a net requirement of \$6.0 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$7.5 billion in the April to September 2000 period, compared to a financial source of \$3.9 billion in the same period last year.

## **Net financial source of \$8.0 billion for April to September 2000**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.4 billion in the first six months of 2000-01, compared to a net source of \$0.2 billion in the same period last year.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	September		April to September	
	1999	2000	1999-00	2000-01
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	1,924	3,293	8,098	13,500
<b>Loans, investments and advances</b>				
Crown corporations	69	100	19	206
Other	-291	42	-122	183
Total	-222	142	-103	389
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	739	128	291	-538
Superannuation accounts	484	28	2,313	1,458
Other	14	150	-98	-65
Total	1,237	306	2,506	855
<b>Other transactions</b>	-837	-252	-6,627	-7,230
<b>Total non-budgetary transactions</b>	178	196	-4,224	-5,986
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,102	3,489	3,874	7,514
<b>Foreign exchange transactions</b>	501	667	177	437
<b>Net financial balance</b>	2,603	4,156	4,051	7,951

Table 5

## Net financial balance and net borrowings

	September		April to September	
	1999	2000	1999-00	2000-01
(\$ millions)				
<b>Net financial balance</b>	2,603	4,156	4,051	7,951
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-11,693	-4,933	-2,206	6,018
Canada Savings Bonds	28	-98	-682	-790
Treasury bills	3,650	-6,200	-3,801	-20,050
Other	-759	-376	535	82
Total	-8,774	-11,607	-6,154	-14,740
Payable in foreign currencies				
Marketable bonds	-302		-415	-2,174
Notes and loans				
Canada bills	-206	-509	-3,876	-1,395
Canada notes	-30		-256	
Total	-538	-509	-4,547	-3,569
<b>Net change in borrowings</b>	-9,312	-12,116	-10,701	-18,309
<b>Change in cash balance</b>	-6,709	-7,960	-6,650	-10,358

Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	September 30, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	33,573	-7,175
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,804	1,458
Canada Pension Plan (net of securities)	6,217	5,679	-538
Other pension and other accounts	6,963	6,898	-65
Total pension and other accounts	141,526	142,381	855
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	299,945	6,018
Treasury bills	99,850	79,800	-20,050
Canada Savings Bonds	26,489	25,642	-847
Non-marketable bonds and bills	3,552	3,635	83
Subtotal	423,818	409,022	-14,796
Payable in foreign currencies	32,588	29,020	-3,568
Total unmaturred debt	456,406	438,042	-18,364
Total interest-bearing debt	597,932	580,423	-17,509
Total liabilities	638,680	613,996	-24,684
<b>Assets</b>			
Cash and accounts receivable	18,864	8,506	-10,358
Foreign exchange accounts	41,494	41,057	-437
Loans, investments and advances (net of allowances)	13,796	13,407	-389
Total assets	74,154	62,970	-11,184
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>551,022</b>	<b>-13,500</b>

# The Fiscal Monitor

Table 7

## Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
	(millions of dollars)								
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174	56,383
Less:									
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640	30,746
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850	2,847
<b>Net GST</b>	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684	22,790
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127	123	104
<b>Gains from wind-up of interest in Crown corporations/ disposal of shares</b>	2	110			325				
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2	0.3
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808	22,894

Source: *Public Accounts of Canada*.

With a budgetary surplus of \$13.5 billion, a net requirement of \$6.0 billion from non-budgetary transactions and a net source of funds of \$0.4 billion from foreign exchange transactions, there was a net financial source of \$8.0 billion in the April to September 2000 period, compared to a net source of \$4.1 billion in the same period last year.

### Net borrowings down \$18.3 billion for April to September 2000

In September, the Government's holdings of market debt declined by \$12.1 billion, bringing the retirement for the first six months to \$18.3 billion. This was financed with the net financial source \$8.0 billion and a reduction of \$10.4 billion in cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt

maturities, which can be quite volatile on a monthly basis. At the end of September, cash balances were \$2.6 billion.

### The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for October 2000

### October 2000: budgetary deficit of \$301 million

There was a budgetary deficit of \$301 million in October 2000, compared to a surplus of \$111 million in October 1999. The deficit in October 2000 was attributable to the special payment of \$1 billion in trust to the provinces and territories for new medical equipment, as part of the new federal investments to support the agreements reached on September 11<sup>th</sup> by the First Ministers on health renewal and early childhood development.

On a year-over-year basis, budgetary revenues increased \$1.1 billion, or 9.3 per cent, reflecting increases in all major components with the exception of personal income tax revenues.

- Personal income tax revenues were down \$0.8 billion, or 13.1 per cent. This decline was attributable to higher transfers to the Canada Pension Plan (CPP) and employment insurance (EI) accounts, reflecting underpayments in previous periods. Gross remittances received include not only federal personal income tax liabilities but also provincial income tax liabilities (as set out under the tax collection agreements with participating provinces) and employee and employer premium contributions for EI and the CPP. On a monthly basis, deductions for these liabilities are based on estimates, with adjustments made once either preliminary or final data become available from the Canada Customs and Revenue Agency. Based on

preliminary taxation results for 1999, transfers from personal income tax revenues to the CPP and EI accounts amounting to \$1.4 billion were made in October 2000.

- Corporate income tax revenues were up \$0.8 billion, or 74.3 per cent, primarily reflecting timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were also up strongly, after declining last month.
- The increase in EI premium revenues of \$0.4 billion, or 30.0 per cent, was due to the transfer from personal income tax revenues relating to underpayments with respect to the 1999 taxation year.
- Excise taxes and duties were up \$0.4 billion, or 14.5 per cent, with all components registering strong increases.
- Non-tax revenues were also up. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

On a year-over-year basis, program spending increased \$1.4 billion, or 15.9 per cent, of which \$1 billion was due to the payment in trust to the provinces and territories for new medical equipment.

- Major transfers to persons were up 2.7 per cent, attributable to higher elderly benefit payments, as EI benefit payments were unchanged.
- Major transfers to other levels of government were up 10.0 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	October		April to October	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>	12,000	13,112	91,215	100,414
Revenues	-8,634	-10,007	-59,205	-63,114
Program spending	3,366	3,105	32,010	37,300
Operating surplus	-3,255	-3,406	-23,803	-24,103
Public debt charges	111	-301	8,207	13,197
Budgetary balance (deficit/surplus)	1,064	859	-3,155	-5,126
<b>Non-budgetary transactions</b>				
<b>Financial requirements/source</b>	1,175	558	5,052	8,071
(excluding foreign exchange transactions)	-1,039	893	-862	1,330
<b>Foreign exchange transactions</b>	136	1,451	4,190	9,401
<b>Net financial balance</b>	3,784	3,658	-6,916	-14,652
<b>Net change in borrowings</b>	3,920	5,109	-2,726	-5,251
<b>Net change in cash balances</b>				

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Direct program spending was up 26.8 per cent, primarily reflecting the \$1-billion payment in trust to the provinces and territories for new medical equipment.

On a year-over-year basis, public debt charges were up \$0.2 billion, or 4.6 per cent, in part reflecting adjustments in October 1999 to correct for over-reporting in previous months.

### Year-to-date: budgetary surplus of \$13.2 billion

Over the first seven months of fiscal year 2000-01, the budgetary surplus was estimated at \$13.2 billion, up \$5.0 billion from the surplus of \$8.2 billion reported in the same period of 1999-2000.

These results are in line with the average private sector forecast of the fiscal surplus for 2000-01, as set out in the October 18, 2000, *Economic Statement and Budget Update*.

Budgetary revenues were up \$9.2 billion, or 10.1 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$3.5 billion, or 7.8 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Over the balance of the fiscal year, growth in this component will be restrained as the impact of tax reductions is realized.
- Corporate income tax revenues were up \$3.4 billion, or 34.2 per cent. Although part of this increase reflects the continued strength in corporate profits, up 17.5 per cent in the first three quarters of 2000 over the same period last year, the increase in revenues is also affected by tax instalment procedures.

Table 2

## Budgetary revenues

	October		Change	April to October		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,213	5,397	-13.1	45,291	48,840	7.8
Corporate income tax	1,063	1,853	74.3	9,837	13,201	34.2
Other income tax revenue	252	381	51.2	1,693	1,820	7.5
Total income tax	7,528	7,631	1.4	56,821	63,861	12.4
<b>Employment insurance premium revenues</b>	1,242	1,614	30.0	11,234	11,548	2.8
<b>Excise taxes and duties</b>						
Goods and services tax	2,003	2,325	16.1	13,606	14,723	8.2
Customs import duties	211	230	9.0	1,379	1,569	13.8
Sales and excise taxes	633	706	11.5	4,911	4,946	0.7
Total excise taxes and duties	2,847	3,261	14.5	19,896	21,238	6.7
<b>Total tax revenues</b>	11,617	12,506	7.7	87,951	96,647	9.9
<b>Non-tax revenues</b>	383	606	58.2	3,264	3,767	15.4
<b>Total budgetary revenues</b>	12,000	13,112	9.3	91,215	100,414	10.1

Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made 30 days following the end of their taxation year. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Since current monthly instalments are being compared to last year's understated instalments, the year-over-year changes are likely not an appropriate indicator of the results for the year as a whole.

- EI premium revenues were up 2.8 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) was more than offset by the impact

of the prior-year adjustments and the growth in the number of people employed and therefore paying premiums.

- Excise taxes and duties increased by \$1.3 billion, or 6.7 per cent. GST revenues were up \$1.1 billion, or 8.2 per cent, broadly in line with the growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.
- Non-tax revenues were up \$0.5 billion, or 15.4 per cent.

Program spending increased by \$3.9 billion, or 6.6 per cent, in the April to October 2000 period, compared to the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 1.6 per cent, as higher elderly benefits more than offset the decline in EI benefit payments.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	October		Change	April to October		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,964	2,037	3.7	13,513	13,990	3.5
Employment insurance benefits	750	750	0.0	5,969	5,806	-2.7
Total	2,714	2,787	2.7	19,482	19,796	1.6
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	7,292	7,875	8.0
Fiscal transfers	868	976	12.4	6,081	6,807	11.9
Alternative Payments for Standing Programs	-188	-206	9.6	-1,313	-1,439	9.6
Total	1,722	1,895	10.0	12,060	13,243	9.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	48	7	-85.4	315	263	-16.5
Foreign Affairs	174	212	21.8	821	778	-5.2
Health	86	67	-22.1	587	633	7.8
Human Resources Development	159	120	-24.5	866	579	-33.1
Indian and Northern Development	262	176	-32.8	2,514	2,646	5.3
Industry and Regional Development	127	125	-1.6	737	732	-0.7
Veterans Affairs	117	122	4.3	805	841	4.5
Other	162	1,057	552.5	1,147	2,087	82.0
Total	1,135	1,886	66.2	7,792	8,559	9.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	100	53.8	485	615	26.8
Canada Mortgage and Housing Corporation	150	150	0.0	1,045	1,070	2.4
Other	70	167	138.6	595	874	46.9
Total	285	417	46.3	2,125	2,559	20.4
Operating and capital expenditures						
Defence	799	989	23.8	5,595	5,762	3.0
All other departmental expenditures	1,979	2,033	2.7	12,151	13,195	8.6
Total	2,778	3,022	8.8	17,746	18,957	6.8
Total direct program spending	4,198	5,325	26.8	27,663	30,075	8.7
<b>Total program expenditures</b>	8,634	10,007	15.9	59,205	63,114	6.6
<b>Public debt charges</b>	3,255	3,406	4.6	23,803	24,103	1.3
<b>Total budgetary expenditures</b>	11,889	13,413	12.8	83,008	87,217	5.1
<b>Memorandum item:</b>						
Total transfers	5,571	6,568	17.9	39,334	41,598	5.8

The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments reflects a lower number of beneficiaries due to the decline in the number of unemployed.

- Major transfers to other levels of government were up 9.8 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 8.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, the lifting of the wage freeze, the effect of new initiatives announced in recent budgets and the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the First Ministers on health renewal and early childhood development.

Public debt charges were up \$0.3 billion, or 1.3 per cent, as the impact of somewhat higher interest rates more than offset the decline in the stock of interest-bearing debt.

## **Financial source of \$8.1 billion (excluding foreign exchange transactions) for April to October 2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment

is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the first seven months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as the payments related to the pay equity settlement.

As a result, with a budgetary surplus of \$13.2 billion and a net requirement of \$5.1 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$8.1 billion in the April to October 2000 period, compared to a financial source of \$5.1 billion in the same period last year.

## **Net financial source of \$9.4 billion for April to October 2000**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	October		April to October	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	111	-301	8,207	13,197
<b>Loans, investments and advances</b>				
Crown corporations	170	50	190	256
Other	47	-961	-74	-778
Total	217	-911	116	-522
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-59	871	232	333
Superannuation accounts	463	167	2,777	1,626
Other	-29	9	-126	-56
Total	375	1,047	2,883	1,903
<b>Other transactions</b>	472	723	-6,154	-6,507
<b>Total non-budgetary transactions</b>	1,064	859	-3,155	-5,126
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,175	558	5,052	8,071
<b>Foreign exchange transactions</b>	-1,039	893	-862	1,330
<b>Net financial balance</b>	136	1,451	4,190	9,401

Table 5

## Net financial balance and net borrowings

	October		April to October	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Net financial balance</b>	136	1,451	4,190	9,401
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	4,173	3,931	1,967	9,949
Canada Savings Bonds	-4	-191	-686	-981
Treasury bills	150	-300	-3,650	-20,350
Other	-234	109	301	191
Total	4,085	3,549	-2,068	-11,191
Payable in foreign currencies				
Marketable bonds		-28	-415	-2,202
Notes and loans				
Canada bills	-301	173	-4,177	-1,223
Canada notes		-36	-256	-36
Total	-301	109	-4,848	-3,461
<b>Net change in borrowings</b>	3,784	3,658	-6,916	-14,652
<b>Change in cash balance</b>	3,920	5,109	-2,726	-5,251



Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	October 31, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	35,590	-5,158
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,972	1,626
Canada Pension Plan (net of securities)	6,217	6,550	333
Other pension and other accounts	6,963	6,600	-363
Total pension and other accounts	141,526	143,122	1,596
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	303,876	9,949
Treasury bills	99,850	79,500	-20,350
Canada Savings Bonds	26,489	25,508	-981
Non-marketable bonds and bills	3,552	3,744	192
Subtotal	423,818	412,628	-11,190
Payable in foreign currencies	32,588	29,129	-3,459
Total unmaturred debt	456,406	441,757	-14,649
Total interest-bearing debt	597,932	584,879	-13,053
Total liabilities	638,680	620,469	-18,211
<b>Assets</b>			
Cash and accounts receivable	18,864	14,659	-4,205
Foreign exchange accounts	41,494	40,163	-1,331
Loans, investments and advances (net of allowances)	13,796	14,318	522
Total assets	74,154	69,140	-5,014
<b>Accumulated deficit (net public debt)</b>	564,526	551,329	-13,197

# The Fiscal Monitor

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Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$1.3 billion in the first seven months of 2000-01, compared to a net requirement of \$0.9 billion in the same period last year.

With a budgetary surplus of \$13.2 billion, a net requirement of \$5.1 billion from non-budgetary transactions and a net source of funds of \$1.3 billion from foreign exchange transactions, there was a net financial source of \$9.4 billion in the April to October 2000 period, compared to a net source of \$4.2 billion in the same period last year.

## **Net borrowings down \$14.7 billion for April to October 2000**

In October 2000, the Government's holding of market debt increased by \$3.7 billion, with the result that, for the first seven months of 2000-01, there was a net retirement in market debt of \$14.7 billion. This was financed by the net financial source of \$9.4 billion and a reduction of \$5.3 billion in cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of October 2000, cash balances were \$7.8 billion.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for November 2000

### November 2000: budgetary surplus of \$0.9 billion

There was a budgetary surplus of \$0.9 billion in November 2000, compared to a budgetary deficit of \$0.3 billion in November 1999.

The year-over-year improvement in the monthly budgetary balance was attributable to higher budgetary revenues, up \$1.4 billion, and lower public debt charges, down \$0.2 billion. Dampening the impact of these developments on the overall budgetary balance was higher program spending, up \$0.4 billion.

Within budgetary revenues, on a year-over-year basis:

Personal income tax revenues were up marginally, as the impact of the tax relief measures announced in the February 2000 budget and prior-year adjustments virtually offset the effect of higher receipts from monthly deductions from employment income due to the increase in the number of people employed.

- Corporate income tax revenues were up \$0.2 billion, or 11.1 per cent, primarily reflecting the growth in corporate profits in 2000. Other income taxes were also up strongly.
- Employment insurance (EI) premium revenues declined slightly, as the reduction in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) more than offset the impact of the growth in the number of people employed and therefore paying premiums.

- Excise taxes and duties were up \$0.8 billion, or 28.0 per cent, with all components registering strong increases. In part, these increases reflected timing of receipts and payment of refunds and rebates.
- Non-tax revenues were also up strongly. However, year-over-year comparisons are misleading as accounting changes now require the monthly recording of receivables, whereas in 1999-2000, such adjustments were made only at year end.

Within program spending, on a year-over-year basis:

- Major transfers to persons were up 3.2 per cent, attributable to higher elderly benefit payments, as EI benefit payments were virtually unchanged.
- Major transfers to other levels of government were up 6.0 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was up 5.4 per cent, primarily reflecting increases in departmental operating and capital expenditures. In contrast, subsidies and other transfers, and payments to Crown corporations, were lower.

The decline in public debt charges on a year-over-year basis primarily reflected timing adjustments, which impacted negatively on the November 1999 results.





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	November		April to November	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	12,327	13,705	103,541	114,117
Program spending	-8,927	-9,358	-68,131	-72,471
Operating surplus	3,400	4,347	35,410	41,646
Public debt charges	-3,683	-3,436	-27,486	-27,539
Budgetary balance (deficit/surplus)	-283	911	7,924	14,107
<b>Non-budgetary transactions</b>	2,321	977	-837	-4,149
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,038	1,888	7,087	9,958
<b>Foreign exchange transactions</b>	-3,320	-1,801	-4,183	-471
<b>Net financial balance</b>	-1,282	87	2,904	9,487
<b>Net change in borrowings</b>	6,362	4,906	-555	-9,746
<b>Net change in cash balances</b>	5,080	4,993	2,349	-259

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

### Year-to-date: budgetary surplus of \$14.1 billion

Over the first eight months of fiscal year 2000-01, the budgetary surplus was estimated at \$14.1 billion, up \$6.2 billion from the surplus of \$7.9 billion reported in the same period of 1999-2000.

These results are in line with the average private sector forecast of the fiscal surplus for 2000-01, as set out in the October 18, 2000, *Economic Statement and Budget Update*.

Budgetary revenues were up \$10.6 billion, or 10.2 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$3.6 billion, or 7.1 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid

on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Dampening the impact of these factors were the tax relief measures announced in the February 2000 budget and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation year. Over the balance of the fiscal year, growth in this component will be further restrained as the full impact of tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* is realized. These include the reduction in the tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, increases in the Canada Child Tax Benefit and the restoration of full indexation of the personal income tax system.

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Table 2

## Budgetary revenues

	November		Change	April to November		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,070	6,150	1.3	51,362	54,990	7.1
Corporate income tax	1,692	1,879	11.1	11,529	15,080	30.8
Other income tax revenue	189	244	29.1	1,882	2,064	9.7
Total income tax	7,951	8,273	4.0	64,773	72,134	11.4
<b>Employment insurance premium revenues</b>	1,098	1,073	-2.3	12,332	12,622	2.4
<b>Excise taxes and duties</b>						
Goods and services tax	2,102	2,619	24.6	15,707	17,340	10.4
Customs import duties	154	303	96.8	1,533	1,872	22.1
Sales and excise taxes	608	744	22.4	5,518	5,691	3.1
Total excise taxes and duties	2,864	3,666	28.0	22,758	24,903	9.4
<b>Total tax revenues</b>	11,913	13,012	9.2	99,863	109,659	9.8
<b>Non-tax revenues</b>	414	693	67.4	3,678	4,458	21.2
<b>Total budgetary revenues</b>	12,327	13,705	11.2	103,541	114,117	10.2

- Corporate income tax revenues were up \$3.6 billion, or 30.8 per cent. Although part of this increase reflects the continued strength in corporate profits, up 17.5 per cent in the first three quarters of 2000 over the same period in 1999, the increase in revenues is also affected by tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made 30 days following the end of their taxation year. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Since current monthly instalments are being compared to the understated instalments of 1999, the year-over-year changes are

likely not an appropriate indicator of the results for the year as a whole.

- EI premium revenues were up \$0.3 billion, or 2.4 per cent, as the decline in premium rates for 2000 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$2.1 billion, or 9.4 per cent. Goods and services tax revenues were up \$1.6 billion, or 10.4 per cent, somewhat above the growth in consumer demand, reflecting the timing of receipts and the payment of refunds and rebates. Customs import duties were up strongly, while sales and excise taxes were up marginally.
- Non-tax revenues were up \$0.8 billion, or 21.2 per cent, primarily reflecting the change in accounting procedures for receivables.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	November			April to November		
	1999	2000	Change	1999-00	2000-01	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,958	2,051	4.7	15,471	16,040	3.7
Employment insurance benefits	911	910	-0.1	6,880	6,716	-2.4
Total	2,869	2,961	3.2	22,351	22,756	1.8
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	8,333	9,000	8.0
Fiscal transfers	976	1,020	4.5	7,056	7,827	10.9
Alternative Payments for Standing Programs	-188	-206	9.6	-1,501	-1,644	9.5
Total	1,830	1,939	6.0	13,888	15,183	9.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	119	23	-80.7	434	286	-34.1
Foreign Affairs	118	125	5.9	939	904	-3.7
Health	64	107	67.2	651	739	13.5
Human Resources Development	120	28	-76.7	986	607	-38.4
Indian and Northern Development	269	316	17.5	2,783	2,962	6.4
Industry and Regional Development	108	90	-16.7	844	821	-2.7
Veterans Affairs	116	117	0.9	921	958	4.0
Other	184	287	56.0	1,330	2,376	78.6
Total	1,098	1,093	-0.5	8,888	9,653	8.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	60	-25.0	565	675	19.5
Canada Mortgage and Housing Corporation	150	150	0.0	1,195	1,220	2.1
Other	105	75	-28.6	701	949	35.4
Total	335	285	-14.9	2,461	2,844	15.6
Operating and capital expenditures						
Defence	1,030	1,072	4.1	6,624	6,835	3.2
All other departmental expenditures	1,765	2,008	13.8	13,919	15,200	9.2
Total	2,795	3,080	10.2	20,543	22,035	7.3
Total direct program spending	4,228	4,458	5.4	31,892	34,532	8.3
<b>Total program expenditures</b>	8,927	9,358	4.8	68,131	72,471	6.4
<b>Public debt charges</b>	3,683	3,436	-6.7	27,486	27,539	0.2
<b>Total budgetary expenditures</b>	12,610	12,794	1.5	95,617	100,010	4.6
Memorandum item:						
Total transfers	5,797	5,993	3.4	45,127	47,592	5.5

Program spending increased by \$4.3 billion, or 6.4 per cent, in the April to November 2000 period, compared to the same period in 1999. This increase was spread among all major components.

- Major transfers to persons were up 1.8 per cent, as higher elderly benefits more than offset the decline in EI benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments reflects fewer beneficiaries due to the decline in the number of people unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the labour market agreements.
- Major transfers to other levels of government were up 9.3 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 8.3 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments,

the lifting of the wage freeze and the effect of new initiatives, including the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the First Ministers on health renewal and early childhood development.

Public debt charges were up marginally, reflecting timing factors.

## **Financial source of \$10.0 billion (excluding foreign exchange transactions) for April to November 2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.1 billion in the first eight months of 2000-01, compared to a requirement of \$0.8 billion in the same period in 1999-2000. This was attributable, in part, to pay equity settlement payments and changes to the financing of the Canada Student Loans Program.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	November		April to November	
	1999	2000	1999-00	2000-01
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-283	911	7,924	14,107
<b>Loans, investments and advances</b>				
Crown corporations	41	52	230	308
Other	13	-91	-61	-869
Total	54	-39	169	-561
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	463	-360	695	-28
Superannuation accounts	395	84	3,171	1,709
Other	2	16	-125	-40
Total	860	-260	3,741	1,641
<b>Other transactions</b>	1,407	1,276	-4,747	-5,229
<b>Total non-budgetary transactions</b>	2,321	977	-837	-4,149
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,038	1,888	7,087	9,958
<b>Foreign exchange transactions</b>	-3,320	-1,801	-4,183	-471
<b>Net financial balance</b>	-1,282	87	2,904	9,487

Table 5

## Net financial balance and net borrowings

	November		April to November	
	1999	2000	1999-00	2000-01
(\$ millions)				
<b>Net financial balance</b>	-1,282	87	2,904	9,487
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	4,900	5,500	6,867	15,449
Canada Savings Bonds	-33	-243	-720	-1,224
Treasury bills	-400	-400	-4,050	-20,750
Other	-543	-153	-242	38
Total	3,924	4,704	1,855	-6,487
Payable in foreign currencies				
Marketable bonds	2,942	0	2,527	-2,202
Notes and loans				
Canada bills	-504	202	-4,681	-1,021
Canada notes			-256	-36
Total	2,438	202	-2,410	-3,259
<b>Net change in borrowings</b>	6,362	4,906	-555	-9,746
<b>Change in cash balance</b>	5,080	4,993	2,349	-259

Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	November 30, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	35,516	-5,232
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	130,055	1,709
Canada Pension Plan (net of securities)	6,217	6,189	-28
Other pension and other accounts	6,963	6,923	-40
Total pension and other accounts	141,526	143,167	1,641
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	309,376	15,449
Treasury bills	99,850	79,100	-20,750
Canada Savings Bonds	26,489	25,265	-1,224
Non-marketable bonds and bills	3,552	3,591	39
Subtotal	423,818	417,332	-6,486
Payable in foreign currencies	32,588	29,331	-3,257
Total unmaturred debt	456,406	446,663	-9,743
Total interest-bearing debt	597,932	589,830	-8,102
Total liabilities	638,680	625,346	-13,334
<b>Assets</b>			
Cash and accounts receivable	18,864	18,605	-259
Foreign exchange accounts	41,494	41,965	471
Loans, investments and advances (net of allowances)	13,796	14,357	561
Total assets	74,154	74,927	773
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>550,419</b>	<b>-14,107</b>

As a result, with a budgetary surplus of \$14.1 billion and a net requirement of \$4.1 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$10.0 billion in the April to November 2000 period, compared to a financial source of \$7.1 billion in the same period in 1999.

## **Net financial source of \$9.5 billion for April to November 2000**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.5 billion in the first eight months of 2000-01, compared to a net requirement of \$4.2 billion in the same period in 1999-2000.

With a budgetary surplus of \$14.1 billion, a net requirement of \$4.1 billion from non-budgetary transactions and a net requirement of funds of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$9.5 billion in the April to November 2000 period, compared to a net source of \$2.9 billion in the same period in 1999.

## **Net borrowings down \$9.7 billion for April to November 2000**

In November 2000, the Government's holding of market debt increased by \$4.9 billion, with the result that, for the first eight months of 2000-01, there was a net retirement of \$9.7 billion of market debt. This was financed largely by the net financial source \$9.5 billion, as cash balances were only marginally lower. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of November 2000, cash balances were \$12.7 billion.





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2000: budgetary surplus of \$3.4 billion

There was a budgetary surplus of \$3.4 billion in December 2000. A large surplus was expected in December given the monthly pattern of revenues. More specifically, the December results included final corporate income tax settlement payments from those corporations whose taxation year ends on October 31, as well as quarterly personal income tax instalment payments.

### April to December 2000: budgetary surplus of \$17.5 billion

Over the first nine months of fiscal year 2000-01, the budgetary surplus was estimated at \$17.5 billion, up \$6.5 billion from the surplus of \$11.0 billion reported in the same period of 1999-2000.

These results continue to be in line with the average private sector forecast of the fiscal surplus for 2000-01, as set out in the October 18, 2000, *Economic Statement and Budget Update*. Over the balance of the fiscal year, the budgetary surplus is expected to decline as the impact of various policy actions come into effect. These include the reduction in personal income tax rates; the elimination of the 5-per-cent surtax; increases in the thresholds; increases in the Canada Child Tax Benefit; the impact of the restoration of full indexation of the personal income tax system; the Relief for Heating Expenses; and funding for health information and communications technology and the Canada Foundation for Innovation. The net impact of these initiatives is estimated at \$5 billion. In addition, corporate income tax revenues over the balance of the year are expected to be lower, reflecting timing considerations. In the *Economic Statement and Budget Update*, a surplus for the year as a whole of \$11.9 billion was estimated, of which a minimum of \$10 billion was committed to reducing debt.

### December 2000: budgetary results

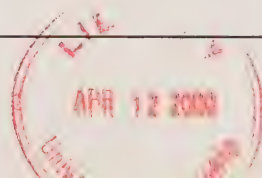
The budgetary surplus of \$3.4 billion in December 2000 was \$0.4 billion higher than the surplus reported in December 1999. However, most of the year-over-year improvement in the monthly budgetary balance was attributable to lower program spending, down \$0.4 billion, reflecting Y2K-related contingency planning in December 1999.

On a year-over-year basis, budgetary revenues were up marginally, as an increase in personal income tax revenues offset declines in the other major components.

- Personal income tax revenues were up \$0.6 billion, or 7.6 per cent. This increase reflected continued strong growth in receipts from monthly deductions from employment income, due to the increase in the number of

people employed, as well as timing factors related to the receipt of payments.

- Corporate income tax revenues were down \$0.2 billion, or 6.8 per cent. December results incorporate final settlement payments for corporations whose taxation year ends in October, primarily financial institutions. Although profits were up sharply in this sector, final settlement payments were largely unchanged, as large payments were made in December 1999 reflecting low instalment payments during the course of 1999.
- Employment insurance (EI) premium revenues declined slightly, as the reduction in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) more than offset the impact of the growth in the number of people employed and therefore paying premiums.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	December		April to December	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,341	16,446	119,884	130,563
Program spending	-9,944	-9,538	-78,076	-82,008
Operating surplus	6,397	6,908	41,808	48,555
Public debt charges	-3,339	-3,486	-30,825	-31,024
Budgetary balance (deficit/surplus)	3,058	3,422	10,983	17,531
<b>Non-budgetary transactions</b>	-4,596	-5,676	-5,366	-9,831
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-1,538	-2,254	5,617	7,700
<b>Foreign exchange transactions</b>	3,875	599	-308	129
<b>Net financial balance</b>	2,337	-1,655	5,309	7,829
<b>Net change in borrowings</b>	-49	-6,870	-603	-16,616
<b>Net change in cash balances</b>	2,288	-8,525	4,706	-8,787

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Excise taxes and duties were down \$0.2 billion, or 8.6 per cent, with all components registering declines. Given the abnormally strong year-over-year increase in November 2000, these declines reflected, in part, the timing of receipts and the payment of refunds and rebates.
- Non-tax revenues were also down. However, year-over-year comparisons are misleading as accounting changes now require the monthly recording of receivables, whereas in 1999-2000, such adjustments were only made at year end.

Within program spending, on a year-over-year basis:

- Major transfers to persons were down 4.3 per cent due to lower elderly and EI benefit payments. This reflected the advancement of some payments in December 1999 related to Y2K.
- Major transfers to other levels of government were up 15.5 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.

- Direct program spending was down 11.0 per cent, primarily reflecting the timing of payments. December 1999 figures included incremental spending to address the Y2K computer problem as well as some advancement of payments as part of contingency planning.

The increase in public debt charges, on a year-over-year basis, was attributable to an increase in the average effective interest rate on the stock of interest-bearing debt.

### April to December 2000: budgetary results

Over the first nine months of fiscal year 2000-01, the budgetary surplus was estimated at \$17.5 billion, up \$6.5 billion from the surplus of \$11.0 billion reported in the same period of 1999-2000.

Budgetary revenues were up \$10.7 billion, or 8.9 per cent, on a year-over-year basis. Among the major revenue components:

Table 2

## Budgetary revenues

	December		Change	April to December		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	8,502	9,149	7.6	59,865	64,139	7.1
Corporate income tax	2,610	2,432	-6.8	14,140	17,512	23.8
Other income tax revenue	291	283	-2.7	2,173	2,348	8.1
Total income tax	11,403	11,864	4.0	76,178	83,999	10.3
<b>Employment insurance premium revenues</b>	980	964	-1.6	13,312	13,586	2.1
<b>Excise taxes and duties</b>						
Goods and services tax	1,945	1,773	-8.8	17,653	19,115	8.3
Customs import duties	229	202	-11.8	1,763	2,074	17.6
Sales and excise taxes	665	620	-6.8	6,183	6,309	2.0
Total excise taxes and duties	2,839	2,595	-8.6	25,599	27,498	7.4
<b>Total tax revenues</b>	15,222	15,423	1.3	115,089	125,083	8.7
<b>Non-tax revenues</b>	1,119	1,023	-8.6	4,795	5,480	14.3
<b>Total budgetary revenues</b>	16,341	16,446	0.6	119,884	130,563	8.9

- Personal income tax collections were up \$4.3 billion, or 7.1 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to the increase in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Dampening the impact of these factors are the effect of the tax relief measures announced in the February 2000 budget and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation year. Over the balance of the fiscal year, growth in this component will be further restrained as the full impact of tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* is realized.
- Corporate income tax revenues were up \$3.4 billion, or 23.8 per cent. Although part of this increase reflects the continued strength in corporate profits, up 17.5 per cent in the first three quarters of 2000 over the same period in 1999, the increase in revenues is also affected

by tax instalment procedures, as witnessed with the December results. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made 30 days following the end of their taxation year. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Since current monthly instalments are being compared to last year's understated instalments, the year-over-year changes are likely not an appropriate indicator of the results for the year as a whole. Most non-financial sector corporations remit their settlement payments in February.

- EI premium revenues were up \$0.3 billion, or 2.1 per cent, as the decline in premium rates for 2000 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	December		Change	April to December		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,072	2,038	-1.6	17,543	18,079	3.1
Employment insurance benefits	1,000	902	-9.8	7,880	7,618	-3.3
Total	3,072	2,940	-4.3	25,423	25,697	1.1
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	9,375	10,125	8.0
Fiscal transfers	976	1,194	22.3	8,032	9,021	12.3
Alternative Payments for Standing Programs	-188	-206	9.6	-1,688	-1,850	9.6
Total	1,830	2,113	15.5	15,719	17,296	10.0
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	95	97	2.1	529	383	-27.6
Foreign Affairs	113	122	8.0	1,052	1,024	-2.7
Health	167	80	-52.1	818	819	0.1
Human Resources Development	165	208	26.1	1,151	815	-29.2
Indian and Northern Development	326	306	-6.1	3,109	3,267	5.1
Industry and Regional Development	214	192	-10.3	1,058	1,013	-4.3
Veterans Affairs	117	119	1.7	1,038	1,078	3.9
Other	193	198	2.6	1,522	2,576	69.3
Total	1,390	1,322	-4.9	10,277	10,975	6.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	146	103	-29.5	710	778	9.6
Canada Mortgage and Housing Corporation	150	150	0.0	1,345	1,370	1.9
Other	103	190	84.5	804	1,137	41.4
Total	399	443	11.0	2,859	3,285	14.9
Operating and capital expenditures						
Defence	1,278	814	-36.3	7,902	7,648	-3.2
All other departmental expenditures	1,975	1,906	-3.5	15,896	17,107	7.6
Total	3,253	2,720	-16.4	23,798	24,755	4.0
Total direct program spending	5,042	4,485	-11.0	36,934	39,015	5.6
<b>Total program expenditures</b>	9,944	9,538	-4.1	78,076	82,008	5.0
<b>Public debt charges</b>	3,339	3,486	4.4	30,825	31,024	0.6
<b>Total budgetary expenditures</b>	13,283	13,024	-1.9	108,901	113,032	3.8
Memorandum item:						
Total transfers	6,292	6,375	1.3	51,419	53,968	5.0

- Excise taxes and duties increased by \$1.9 billion, or 7.4 per cent. Goods and services tax (GST) revenues were up \$1.5 billion, or 8.3 per cent, which is in line with the growth in consumer demand. Customs import duties were up strongly while sales and excise taxes were up marginally.
- Non-tax revenues were up \$0.7 billion, or 14.3 per cent, primarily reflecting the change in accounting procedures for receivables.

Program spending increased by \$3.9 billion, or 5.0 per cent, in the April to December 2000 period, compared to the same period in 1999. This increase was spread among all major components.

- Major transfers to persons were up 1.1 per cent, as higher elderly benefits more than offset the decline in EI benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments reflects fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.
- Major transfers to other levels of government were up 10.0 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflects the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements is attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 5.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, the lifting of the wage freeze and the effect of new initiatives, including the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the first ministers

on health renewal and early childhood development. The impact of these factors was dampened by one-time expenditures related to Y2K in December 1999 and some advancement of payments as part of contingency planning.

Public debt charges were up marginally, as an increase in the average effective interest rate on interest-bearing debt more than offset a decline in the stock of that debt.

## **Financial source of \$7.7 billion (excluding foreign exchange transactions) for April to December 2000**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.8 billion in first nine months of 2000-01, compared to a requirement of \$5.4 billion in the same period in 1999-2000. This was attributable, in part, to payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of \$17.5 billion and a net requirement of \$9.8 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$7.7 billion in the April to December 2000 period, compared to a financial source of \$5.6 billion in the same period in 1999.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	December		April to December	
	1999	2000	1999-00	2000-01
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	3,058	3,422	10,983	17,531
<b>Loans, investments and advances</b>				
Crown corporations	77	40	308	348
Other	-43	28	-106	-843
Total	34	68	202	-495
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-684	-497	11	-524
Superannuation accounts	519	-152	3,704	1,554
Other	19	-8	-106	-48
Total	-146	-657	3,609	982
<b>Other transactions</b>	-4,484	-5,087	-9,177	-10,318
<b>Total non-budgetary transactions</b>	-4,596	-5,676	-5,366	-9,831
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-1,538	-2,254	5,617	7,700
<b>Foreign exchange transactions</b>	3,875	599	-308	129
<b>Net financial balance</b>	2,337	-1,655	5,309	7,829

Table 5

## Net financial balance and net borrowings

	December		April to December	
	1999	2000	1999-00	2000-01
(\$ millions)				
<b>Net financial balance</b>	2,337	-1,655	5,309	7,829
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	82	-7,130	6,949	8,319
Canada Savings Bonds	40	20	-680	-1,204
Treasury bills	550	-400	-3,500	-21,150
Other	-93	-133	-334	-95
Total	579	-7,643	2,435	-14,130
Payable in foreign currencies				
Marketable bonds	0	0	2,527	-2,202
Notes and loans				
Canada bills	-628	773	-5,309	-248
Canada notes			-256	-36
Total	-628	773	-3,038	-2,486
<b>Net change in borrowings</b>	-49	-6,870	-603	-16,616
<b>Change in cash balance</b>	2,288	-8,525	4,706	-8,787



Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	December 31, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	30,780	-9,968
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,900	1,554
Canada Pension Plan (net of securities)	6,217	5,693	-524
Other pension and other accounts	6,963	6,915	-48
Total pension and other accounts	141,526	142,508	982
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	302,246	8,319
Treasury bills	99,850	78,700	-21,150
Canada Savings Bonds	26,489	25,285	-1,204
Non-marketable bonds and bills	3,552	3,457	-95
Subtotal	423,818	409,688	-14,130
Payable in foreign currencies	32,588	30,104	-2,484
Total unmaturred debt	456,406	439,792	-16,614
Total interest-bearing debt	597,932	582,300	-15,632
Total liabilities	638,680	613,080	-25,600
<b>Assets</b>			
Cash and accounts receivable	18,864	10,429	-8,435
Foreign exchange accounts	41,494	41,365	-129
Loans, investments and advances (net of allowances)	13,796	14,291	495
Total assets	74,154	66,085	-8,069
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>546,995</b>	<b>-17,531</b>

## Net financial source of \$7.8 billion for April to December 2000

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also

impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.1 billion in the first nine months of 2000-01, compared to a net requirement of \$0.3 billion in the same period in 1999-2000.

With a budgetary surplus of \$17.5 billion, a net requirement of \$9.8 billion from non-budgetary transactions and a net source of funds of \$0.1 billion from foreign exchange transactions, there was a net financial source of \$7.8 billion in the April to December 2000 period, compared to a net source of \$5.3 billion in the same period in 1999.

# The Fiscal Monitor

Table 7

## Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
	(millions of dollars)								
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174	56,383
Less:									
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640	30,746
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850	2,847
<b>Net GST</b>	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684	22,790
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127	123	104
<b>Gains from wind-up of interest in Crown corporations/ disposal of shares</b>	2	110			325				
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2	0.3
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808	22,894

Source: *Public Accounts of Canada*.

## Net borrowings down \$16.6 billion for April to December 2000

In December 2000 the Government's holding of market debt decreased by \$6.9 billion, with the result that, for the first nine months of 2000-01, there was a net retirement of \$16.6 billion of market debt. This was financed with the net financial source of \$7.8 billion and a reduction in cash balances of \$8.8 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of December 2000, cash balances were \$4.2 billion.

## The Debt Servicing and Reduction Account

In June 1991 legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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February 2001



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2001: budgetary deficit of \$1.1 billion

There was a budgetary deficit of \$1.149 billion in January 2001, compared to a surplus of \$811 million in January 2000. Of this \$2.0 billion year-over-year deterioration in the fiscal balance, \$1.4 billion was attributable to the Relief for Heating Expenses.

### April 2000 to January 2001: budgetary surplus of \$16.4 billion

Over the first 10 months of fiscal year 2000-01, the budgetary surplus was estimated at \$16.4 billion, up \$4.6 billion from the surplus of \$11.8 billion reported in the same period of 1999-2000.

These results continue to be in line with the average private sector forecast of the fiscal surplus for 2000-01, as set out in the October 18, 2000, *Economic Statement and Budget Update*. Over the balance of the fiscal year, the cumulative budgetary surplus is expected to continue to decline, as the full impact of various policy actions is realized. These include the reduction in personal income tax rates; the elimination of the 5-per-cent surtax; increases in the thresholds; the restoration of full indexation of the personal income tax system; and funding for health information and communications technology and the Canada Foundation for Innovation. The net impact of these initiatives is estimated to be at least \$3 billion. In addition, corporate income tax revenues over the balance of the year are expected to be lower, reflecting timing considerations. In the *Economic Statement and Budget Update*, a surplus for the year as a whole of \$11.9 billion was estimated, of which a minimum of \$10 billion was committed to reducing debt.

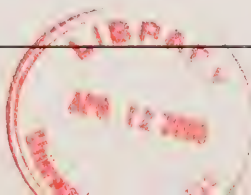
### January 2001: budgetary results

The year-over-year deterioration in the budgetary balance of \$2.0 billion was largely attributable to higher program spending, up \$2.4 billion. This increase was primarily due to the heating expense relief payment and timing factors reflecting Y2K-related contingency planning in December 1999, as noted in last month's *Fiscal Monitor*.

On a year-over-year basis, budgetary revenues were up 2.6 per cent, or \$0.4 billion. Among the major components:

- Personal income tax revenues were down 0.6 per cent, primarily reflecting lower receipts from monthly deductions from employment income, due to the impact of the tax relief measures announced in the October 2000 *Economic Statement and Budget Update*.

- Corporate income tax revenues were up 2.1 per cent, reflecting higher corporate profits in 2000.
- Employment insurance (EI) premium revenues increased 6.8 per cent, primarily due to recoveries for underpayments in January 2000. Excluding these recoveries, EI premium revenues would have declined, reflecting the reduction in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties were up 10.4 per cent, reflecting strong growth in goods and services tax (GST) revenues and customs import duties, primarily attributable to the timing of receipts.
- Non-tax revenues were down 24.9 per cent, reflecting the timing of receipts.





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	January		April to January	
	2000	2001	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,648	14,000	133,533	144,563
Program spending	-9,288	-11,765	-87,365	-93,776
Operating surplus	4,360	2,235	46,168	50,787
Public debt charges	-3,549	-3,384	-34,375	-34,408
Budgetary balance (deficit/surplus)	811	-1,149	11,793	16,379
<b>Non-budgetary transactions</b>	2,609	4,259	-2,753	-5,570
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,420	3,110	9,040	10,809
<b>Foreign exchange transactions</b>	-6,099	-1,694	-6,407	-1,566
<b>Net financial balance</b>	-2,679	1,416	2,633	9,243
<b>Net change in borrowings</b>	-2,084	2,458	-2,688	-14,158
<b>Net change in cash balances</b>	-4,763	3,874	-55	-4,915
<b>Cash balance at end of period</b>			9,170	8,039

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Within program spending, on a year-over-year basis:

- Major transfers to persons were up \$1.4 billion due to the heating expense relief payment. Higher elderly benefit payments were offset by lower EI benefit payments.
- Major transfers to other levels of government were up 13.9 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and equalization programs.
- Direct program spending was up 19.2 per cent, reversing the year-over-year decline of 11.0 per cent in December 2000. As noted in last month's *Fiscal Monitor*, the December 1999 and January 2000 results were affected by the timing of payments related to contingency planning with respect to the Y2K computer problem.

The decline in public debt charges, on a year-over-year basis, was attributable to timing adjustments.

## April 2000 to January 2001: budgetary results

Over the first 10 months of fiscal year 2000-01, the budgetary surplus was estimated at \$16.4 billion, up \$4.6 billion from the surplus of \$11.8 billion reported in the same period of 1999-2000.

Budgetary revenues were up \$11.0 billion, or 8.3 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$4.2 billion, or 6.4 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Dampening the impact of these factors is the effect of the tax relief measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update* and higher transfers to the Canada Pension Plan and EI accounts, reflecting

Table 2

## Budgetary revenues

	January		Change	April to January		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,798	6,758	-0.6	66,663	70,897	6.4
Corporate income tax	1,608	1,642	2.1	15,748	19,153	21.6
Other income tax revenue	589	655	11.2	2,762	3,002	8.7
Total income tax	8,995	9,055	0.7	85,173	93,052	9.3
<b>Employment insurance premium revenues</b>	1,347	1,439	6.8	14,659	15,024	2.5
<b>Excise taxes and duties</b>						
Goods and services tax	2,088	2,340	12.1	19,742	21,455	8.7
Customs import duties	108	219	102.8	1,871	2,293	22.6
Sales and excise taxes	705	643	-8.8	6,888	6,954	1.0
Total excise taxes and duties	2,901	3,202	10.4	28,501	30,702	7.7
<b>Total tax revenues</b>	13,243	13,696	3.4	128,333	138,778	8.1
<b>Non-tax revenues</b>	405	304	-24.9	5,200	5,785	11.3
<b>Total budgetary revenues</b>	13,648	14,000	2.6	133,533	144,563	8.3

underpayments with respect to the 1999 taxation year. Over the balance of the fiscal year, growth in this component will be further restrained as the full impact of tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* is realized.

- Corporate income tax revenues were up \$3.4 billion, or 21.6 per cent, reflecting the increase of 23.4 per cent in corporate profits registered in 2000. However, the growth in revenues is expected to continue to decline over the balance of the year, given the composition of corporate profits and the monthly instalment procedures.
- EI premium revenues were up \$0.4 billion, or 2.5 per cent, as the decline in premium rates for 2000 and 2001 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$2.2 billion, or 7.7 per cent. GST revenues were up \$1.7 billion, or 8.7 per cent, in line with the

growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.

- Non-tax revenues were up \$0.6 billion, or 11.3 per cent.

Program spending increased by \$6.4 billion, or 7.3 per cent, in the April 2000 to January 2001 period, compared to the same period in 1999-2000. This increase was spread among all major components.

- Major transfers to persons were up 5.9 per cent, attributable to the heating expense relief payment and higher elderly benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were lower, reflecting fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	January		Change	April to January		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,909	2,054	7.6	19,451	20,133	3.5
Employment insurance benefits	1,324	1,157	-12.6	9,204	8,775	-4.7
Heating expense relief		1,434			1,434	
Total	3,233	4,645	43.7	28,655	30,342	5.9
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	10,417	11,250	8.0
Fiscal transfers	989	1,181	19.4	9,020	10,201	13.1
Medical Equipment Fund					1,000	
Alternative Payments for Standing Programs	-188	-206	9.6	-1,876	-2,055	9.5
Total	1,843	2,100	13.9	17,561	20,396	16.1
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	690	57	-91.7	1,220	440	-63.9
Foreign Affairs	160	149	-6.9	1,212	1,175	-3.1
Health	43	105	144.2	861	925	7.4
Human Resources Development	96	366	281.3	1,247	1,181	-5.3
Indian and Northern Development	161	206	28.0	3,270	3,473	6.2
Industry and Regional Development	77	87	13.0	1,136	1,100	-3.2
Veterans Affairs	119	130	9.2	1,157	1,208	4.4
Other	160	202	26.1	1,682	1,779	5.7
Total	1,506	1,302	-13.6	11,785	11,281	-4.3
Payments to Crown corporations						
Canadian Broadcasting Corporation	20	65	225.0	730	843	15.5
Canada Mortgage and Housing Corporation	150	150	0.0	1,495	1,520	1.7
Other	70	82	17.1	875	1,221	39.5
Total	240	297	23.8	3,100	3,584	15.6
Operating and capital expenditures						
Defence	740	1,004	35.7	8,643	8,652	0.1
All other departmental expenditures	1,726	2,417	40.0	17,621	19,521	10.8
Total	2,466	3,421	38.7	26,264	28,173	7.3
Total direct program spending	4,212	5,020	19.2	41,149	43,038	4.6
<b>Total program expenditures</b>	9,288	11,765	26.7	87,365	93,776	7.3
<b>Public debt charges</b>	3,549	3,384	-4.6	34,375	34,408	0.1
<b>Total budgetary expenditures</b>	12,837	15,149	18.0	121,740	128,184	5.3
<b>Memorandum item:</b>						
Total transfers	6,582	8,047	22.3	58,001	62,019	6.9



- Major transfers to other levels of government were up 16.1 per cent, reflecting higher cash transfers under the CHST and equalization programs, as well as the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the first ministers on health renewal and early childhood development. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 4.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, the impact of new initiatives announced in the 2000 budget, and the lifting of the wage freeze.

Public debt charges were up marginally, as an increase in the average effective interest rate on interest-bearing debt more than offset a decline in the stock of that debt.

## **Financial source of \$10.8 billion (excluding foreign exchange transactions) for April 2000 to January 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes

transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.6 billion in first 10 months of 2000-01, compared to a requirement of \$2.8 billion in the same period in 1999-2000. This was attributable, in part, to the payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of \$16.4 billion and a net requirement of \$5.6 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$10.8 billion in the April 2000 to January 2001 period, compared to a financial source of \$9.0 billion in the same period in 1999-2000.

## **Net financial source of \$9.2 billion for April 2000 to January 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$1.6 billion in the first 10 months of 2000-01, compared to a net requirement of \$6.4 billion in the same period in 1999-2000.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	January		April to January	
	2000	2001	1999-00	2000-01
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	811	-1,149	11,793	16,379
<b>Loans, investments and advances</b>				
Crown corporations	86	53	393	401
Other	41	-43	-63	-885
Total	127	10	330	-484
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-482	-352	-471	-876
Superannuation accounts	504	17	4,206	1,571
Other	-24	17	-130	-31
Total	-2	-318	3,605	664
<b>Other transactions</b>	2,484	4,567	-6,688	-5,750
<b>Total non-budgetary transactions</b>	2,609	4,259	-2,753	-5,570
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,420	3,110	9,040	10,809
<b>Foreign exchange transactions</b>	-6,099	-1,694	-6,407	-1,566
<b>Net financial balance</b>	-2,679	1,416	2,633	9,243

Table 5

## Net financial balance and net borrowings

	January		April to January	
	2000	2001	1999-00	2000-01
(\$ millions)				
<b>Net financial balance</b>	-2,679	1,416	2,633	9,243
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	8	1,500	6,957	9,819
Canada Savings Bonds	-4	136	-684	-1,067
Treasury bills	-1,950	900	-5,450	-20,250
Other	50	34	-285	-62
Total	-1,896	2,570	538	-11,560
Payable in foreign currencies				
Marketable bonds	0	0	2,527	-2,202
Notes and loans		-580		-580
Canada bills	-180	468	-5,489	220
Canada notes	-8		-264	-36
Total	-188	-112	-3,226	-2,598
<b>Net change in borrowings</b>	-2,084	2,458	-2,688	-14,158
<b>Change in cash balance</b>	-4,763	3,874	-55	-4,915

Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	January 31, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	31,250	-9,498
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,917	1,571
Canada Pension Plan (net of securities)	6,217	5,341	-876
Other pension and other accounts	6,963	6,932	-31
Total pension and other accounts	141,526	142,190	664
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	303,746	9,819
Treasury bills	99,850	79,600	-20,250
Canada Savings Bonds	26,489	25,422	-1,067
Non-marketable bonds and bills	3,552	3,490	-62
Subtotal	423,818	412,258	-11,560
Payable in foreign currencies	32,588	29,992	-2,596
Total unmaturred debt	456,406	442,250	-14,156
Total interest-bearing debt	597,932	584,440	-13,492
Total liabilities	638,680	615,690	-22,990
<b>Assets</b>			
Cash and accounts receivable	18,864	10,203	-8,661
Foreign exchange accounts	41,494	43,060	1,566
Loans, investments and advances (net of allowances)	13,796	14,280	484
Total assets	74,154	67,543	-6,611
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>548,147</b>	<b>-16,379</b>



With a budgetary surplus of \$16.4 billion, a net requirement of \$5.6 billion from non-budgetary transactions and a net requirement of \$1.6 billion from foreign exchange transactions, there was a net financial source of \$9.2 billion in the April 2000 to January 2001 period, compared to a net source of \$2.6 billion in the same period in 1999-2000.

## **Net borrowings down \$14.2 billion for April 2000 to January 2001**

This financial source, coupled with a drawdown in cash balances of \$4.9 billion, resulted in a decline of \$14.2 billion in the Government's holding of market debt to the end of January 2001. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of January 2001 cash balances were \$8.0 billion.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### February 2001: budgetary surplus of \$4.0 billion

There was a budgetary surplus of \$4.0 billion in February 2001, compared to a surplus of \$3.1 billion in February 2000. A large surplus was expected in February, given the monthly pattern of revenues. More specifically, the February results include the final corporate income tax settlement payments from those corporations whose taxation year ends on December 31. Corporate income tax revenues in February 2001 amounted to a monthly record of \$6.1 billion, up 13.4 per cent from February 2000.

### April 2000 to February 2001: budgetary surplus of \$20.4 billion

The budgetary surplus was estimated at \$20.4 billion for the April 2000 to February 2001 period, up \$5.5 billion from the surplus reported in the same period of 1999-2000.

Developments over the balance of the fiscal year will reduce the cumulative surplus to date. These include the impact of the tax reductions announced in the October 2000 *Economic Statement and Budget Update*, as well as proposed funding for a number of initiatives, which will be booked in 2000-01. The latter includes assistance for farmers; funding for the Canada Foundation for Innovation, Genome Canada and health information and communications technology; and the costs associated with proposed enhancements to employment insurance (EI) benefits, which are retroactive to October 2000. In total, these policy developments are estimated at about \$5 billion. In addition, adjustments will be made in the end-of-year accounting period to include the costs of goods and services received in late 2000-01, but for which payments are not made until the April/May period, and personal income tax refunds processed in March 2001 relating to the 2000 taxation year.

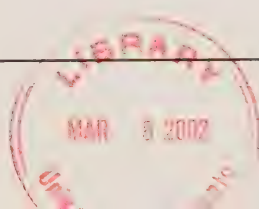
In the October *Economic Statement and Budget Update*, a surplus for the year as a whole of \$11.9 billion was estimated. However, most of the major revenue components have continued to register stronger-than-expected gains, despite the slowing in economic growth. As a result, the surplus for 2000-01 will be higher than expected. Final audited results for 2000-01 will be released in the fall.

### February 2001: budgetary results

The year-over-year improvement in the budgetary balance of \$0.9 billion was attributable to higher budgetary revenues, primarily higher corporate income tax revenues. On a year-over-year basis, budgetary revenues were up 6.4 per cent, or \$1.0 billion. Among the major revenue components:

- Personal income tax revenues were up slightly, as the impact of the tax relief measures announced in the October *Economic Statement and Budget Update* dampened the overall growth in monthly deductions from employment income.

- Corporate income tax revenues were up \$0.7 billion, or 13.4 per cent, reflecting higher corporate profits in 2000.
- EI premium revenues declined 11.5 per cent, primarily due to transfers relating to underpayments during 1999, which boosted revenues in February 2000.
- Excise taxes and duties were up 4.5 per cent, primarily reflecting strong growth in customs import duties.
- Non-tax revenues were up strongly, reflecting the timing of receipts.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	February		April to February	
	2000	2001	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,283	17,323	149,816	161,886
Program spending	-9,724	-9,899	-97,089	-103,674
Operating surplus	6,559	7,424	52,727	58,212
Public debt charges	-3,481	-3,440	-37,856	-37,848
Budgetary balance (deficit/surplus)	3,078	3,984	14,871	20,364
<b>Non-budgetary transactions</b>	430	-1,248	-2,325	-6,816
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,508	2,736	12,546	13,548
<b>Foreign exchange transactions</b>	-1,176	-184	-7,584	-1,750
<b>Net financial balance</b>	2,332	2,552	4,962	11,798
<b>Net change in borrowings</b>	-362	2,894	-3,049	-11,264
<b>Net change in cash balances</b>	1,970	5,446	1,913	534
<b>Cash balance at end of period</b>			11,140	13,485

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

On a year-over-year basis, program spending increased by \$0.2 billion, or 1.8 per cent, as higher transfers to persons and other levels of government were largely offset by lower direct program spending. Among the major components:

- Major transfers to persons were up \$0.2 billion, as both elderly benefit payments and EI benefit payments were higher.
- Major transfers to other levels of government were up 15.5 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and equalization programs.
- Direct program spending declined 5.6 per cent, primarily reflecting the timing of payments.

Public debt charges, on a year-over year basis, were slightly lower, reflecting a decline in the stock of interest-bearing debt.

### April 2000 to February 2001: budgetary results

Over the first 11 months of fiscal year 2000-01, the budgetary surplus was estimated at \$20.4 billion, up \$5.5 billion from the surplus of \$14.9 billion reported in the same period of 1999-2000.

Budgetary revenues were up \$12.1 billion, or 8.1 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$4.3 billion, or 5.9 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Dampening the impact of these factors was the



Table 2

## Budgetary revenues

	February		Change	April to February		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,839	5,906	1.1	72,502	76,802	5.9
Corporate income tax	5,394	6,117	13.4	21,142	25,270	19.5
Other income tax revenue	260	521	100.4	3,022	3,524	16.6
Total income tax	11,493	12,544	9.1	96,666	105,596	9.2
<b>Employment insurance premium revenues</b>	2,110	1,868	-11.5	16,768	16,893	0.7
<b>Excise taxes and duties</b>						
Goods and services tax	1,707	1,739	1.9	21,447	23,194	8.1
Customs import duties	164	224	36.6	2,034	2,517	23.7
Sales and excise taxes	577	595	3.1	7,467	7,550	1.1
Total excise taxes and duties	2,448	2,558	4.5	30,948	33,261	7.5
<b>Total tax revenues</b>	16,051	16,970	5.7	144,382	155,750	7.9
<b>Non-tax revenues</b>	233	353	51.5	5,433	6,136	12.9
<b>Total budgetary revenues</b>	16,284	17,323	6.4	149,815	161,886	8.1

effect of the tax relief measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation year. Increases in the Canada Child Tax Benefit, up 18.5 per cent (reflecting increases to average benefits, which came into effect July 1, 2000, and the indexation of benefits), also served to restrain the overall growth in personal income tax revenues. Over the balance of the fiscal year, growth in personal income tax collections will be further restrained as the full impact of tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* is realized. In addition, recoveries from the Taxation Collection Accounts are not expected to be as large as in 1999-2000.

- Corporate income tax revenues were up \$4.1 billion, or 19.5 per cent, in line with the estimated increase of 23.4 per cent in corporate profits for 2000.

- EI premium revenues were up \$0.1 billion, or 0.7 per cent, as the decline in premium rates for 2000 and 2001 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$2.3 billion, or 7.5 per cent. Goods and services tax revenues were up \$1.7 billion, or 8.1 per cent, in line with the growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.
- Non-tax revenues were up \$0.7 billion, or 12.9 per cent, primarily reflecting higher Bank of Canada profits and interest on bank balances.

Program spending increased by \$6.6 billion, or 6.8 per cent, in the April 2000 to February 2001 period, compared to the same period in 1999-2000. Among the major components, major transfers to other levels of government were up \$3.1 billion, major transfers to persons were up \$1.8 billion, while direct program spending was up \$1.6 billion.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	February		Change	April to February		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,969	2,055	4.4	21,421	22,188	3.6
Employment insurance benefits	1,121	1,195	6.6	10,325	9,970	-3.4
Heating expense relief					1,434	
Total	3,090	3,250	5.2	31,746	33,592	5.8
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	11,458	12,375	8.0
Fiscal transfers	975	1,194	22.5	9,995	11,396	14.0
Medical Equipment Fund					1,000	
Alternative Payments for Standing Programs	-188	-206	9.6	-2,064	-2,260	9.5
Total	1,829	2,113	15.5	19,389	22,511	16.1
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	196	159	-18.9	1,416	599	-57.7
Foreign Affairs	362	249	-31.2	1,574	1,422	-9.7
Health	71	85	19.7	932	1,010	8.4
Human Resources Development	103	141	36.9	1,350	1,322	-2.1
Indian and Northern Development	218	268	22.9	3,488	3,742	7.3
Industry and Regional Development	172	213	23.8	1,308	1,313	0.4
Veterans Affairs	119	126	5.9	1,276	1,334	4.5
Other	277	204	-26.4	1,960	1,983	1.2
Total	1,518	1,445	-4.8	13,304	12,725	-4.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	75	15	-80.0	805	859	6.7
Canada Mortgage and Housing Corporation	150	150	0.0	1,645	1,670	1.5
Other	56	71	26.8	931	1,292	38.8
Total	281	236	-16.0	3,381	3,821	13.0
Operating and capital expenditures						
Defence	1,006	902	-10.3	9,648	9,553	-1.0
All other departmental expenditures	2,000	1,953	-2.3	19,621	21,472	9.4
Total	3,006	2,855	-5.0	29,269	31,025	6.0
Total direct program spending	4,805	4,536	-5.6	45,954	47,571	3.5
<b>Total program expenditures</b>	9,724	9,899	1.8	97,089	103,674	6.8
<b>Public debt charges</b>	3,481	3,440	-1.2	37,856	37,848	0.0
<b>Total budgetary expenditures</b>	13,205	13,339	1.0	134,945	141,522	4.9
Memorandum item:						
Total transfers	6,437	6,808	5.8	64,439	68,828	6.8

- The increase in major transfers to persons was attributable to the heating expense relief payment (\$1.4 billion) and higher elderly benefits, up \$0.8 billion, reflecting an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were down \$0.4 billion, reflecting fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.
- Major transfers to other levels of government were up 16.1 per cent, reflecting higher cash transfers under the CHST and equalization programs, as well as the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the first ministers on health renewal and early childhood development. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 3.5 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, the impact of new initiatives announced in the 2000 budget, and the lifting of the wage freeze.

Public debt charges were virtually unchanged, as the impact of the decline in the stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

## **Financial source of \$13.5 billion (excluding foreign exchange transactions) for April 2000 to February 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$6.8 billion in the first 11 months of 2000-01, compared to a requirement of \$2.3 billion in the same period in 1999-2000. This was attributable, in part, to payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of \$20.4 billion and a net requirement of \$6.8 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$13.5 billion in the April 2000 to February 2001 period, compared to a financial source of \$12.5 billion in the same period in 1999-2000.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	February		April to February	
	2000	2001	1999-00	2000-01
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	3,078	3,984	14,871	20,364
<b>Loans, investments and advances</b>				
Crown corporations	135	4	528	405
Other	148	-4	85	-890
<b>Total</b>	<b>283</b>	<b>0</b>	<b>613</b>	<b>-485</b>
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	413	490	-58	-386
Superannuation accounts	324	-202	4,530	1,369
Other	80	139	-50	109
<b>Total</b>	<b>817</b>	<b>427</b>	<b>4,422</b>	<b>1,092</b>
<b>Other transactions</b>	-670	-1,675	-7,360	-7,423
<b>Total non-budgetary transactions</b>	<b>430</b>	<b>-1,248</b>	<b>-2,325</b>	<b>-6,816</b>
<b>Financial requirements/source</b> (excluding foreign exchange transactions)	3,508	2,736	12,546	13,548
<b>Foreign exchange transactions</b>	-1,176	-184	-7,584	-1,750
<b>Net financial balance</b>	<b>2,332</b>	<b>2,552</b>	<b>4,962</b>	<b>11,798</b>

Table 5

## Net financial balance and net borrowings

	February		April to February	
	2000	2001	1999-00	2000-01
(\$ millions)				
<b>Net financial balance</b>	2,332	2,552	4,962	11,798
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-600	575	6,357	10,394
Canada Savings Bonds	-193	313	-877	-754
Treasury bills	100	2,100	-5,350	-18,150
Other	0	0	-285	-62
<b>Total</b>	<b>-693</b>	<b>2,988</b>	<b>-155</b>	<b>-8,572</b>
Payable in foreign currencies				
Marketable bonds	-39	0	2,488	-2,782
Notes and loans		0		0
Canada bills	370	-94	-5,118	126
Canada notes	0		-264	-36
<b>Total</b>	<b>331</b>	<b>-94</b>	<b>-2,894</b>	<b>-2,692</b>
<b>Net change in borrowings</b>	<b>-362</b>	<b>2,894</b>	<b>-3,049</b>	<b>-11,264</b>
<b>Change in cash balance</b>	<b>1,970</b>	<b>5,446</b>	<b>1,913</b>	<b>534</b>

Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	February 28, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	35,931	-4,817
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,715	1,369
Canada Pension Plan (net of securities)	6,217	5,831	-386
Other pension and other accounts	6,963	7,072	109
Total pension and other accounts	141,526	142,618	1,092
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	304,321	10,394
Treasury bills	99,850	81,700	-18,150
Canada Savings Bonds	26,489	25,735	-754
Non-marketable bonds and bills	3,552	3,490	-62
Subtotal	423,818	415,246	-8,572
Payable in foreign currencies	32,588	29,896	-2,692
Total unmaturred debt	456,406	445,142	-11,264
Total interest-bearing debt	597,932	587,760	-10,172
Total liabilities	638,680	623,691	-14,989
<b>Assets</b>			
Cash and accounts receivable	18,864	22,004	3,140
Foreign exchange accounts	41,494	43,244	1,750
Loans, investments and advances (net of allowances)	13,796	14,281	485
Total assets	74,154	79,529	5,375
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>544,162</b>	<b>-20,364</b>

## **Net financial source of \$11.8 billion for April 2000 to February 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$1.8 billion in the first 11 months of 2000-01, compared to a net requirement of \$7.6 billion in the same period in 1999-2000.

With a budgetary surplus of \$20.4 billion, a net requirement of \$6.8 billion from non-budgetary transactions and a net requirement of \$1.8 billion from foreign exchange transactions, there was a net financial source of \$11.8 billion in the April 2000 to February 2001 period, compared to a net source of \$5.0 billion in the same period in 1999-2000.

## **Net borrowings down \$11.3 billion for April 2000 to February 2001**

This financial source has allowed the Government to reduce its holding of market debt by \$11.3 billion to the end of February 2001. In addition, cash balances increased by \$0.5 billion to stand at \$13.5 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2001: budgetary deficit of \$0.5 billion

There was a budgetary deficit of \$0.5 billion in March 2001, compared to a surplus of \$0.3 billion in March 2000. This deterioration was attributable to the impact of policy initiatives, including the incremental assistance of \$0.5 billion to farmers and the \$0.5-billion payment for health information and communication technologies as agreed to by first ministers in September 2000.

### April 2000 to March 2001: budgetary surplus of \$19.8 billion

The budgetary surplus was estimated at \$19.8 billion for the April 2000 to March 2001 period, up \$4.7 billion from the surplus reported in the same period of 1999-2000. These are not the final results for the 2000-01 fiscal year. Still to come are the regular end-of-year accounting adjustments.

Consistent with government accounting principles, these adjustments incorporate increases in program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 2000-01. For example, the final audited outcome for 1999-2000 was \$12.3 billion, while the surplus to the end of March 2000 was \$15.1 billion, a difference of \$2.8 billion. However, included in the final results for 1999-2000 was a transfer of \$1.9 billion from the Tax Collection Accounts to budgetary revenues, relating to recoveries for overpayments to these accounts in previous years. No such large recoveries are expected this year. This implies that the normal end-of-year adjustments for 1999-2000 amounted to about \$4½ billion.

In the October 2000 *Economic Statement and Budget Update*, a surplus for the year as a whole of \$11.9 billion was estimated, of which a minimum of \$10 billion was committed to reducing debt. Based on the financial results to the end of March 2001 and taking into account the normal end-of-year accounting adjustments, a budgetary surplus of at least \$15 billion is now expected. All of this will be applied to reducing the net public debt. Final audited financial results will be published in the *Annual Financial Report of the Government of Canada*, scheduled for release in mid-September 2001.

### March 2001: budgetary results

On a year-over-year basis, budgetary revenues increased \$0.5 billion, as lower personal income tax revenues were more than offset by higher revenues in all the other major components.

- Personal income tax revenues declined by 12.0 per cent, reflecting the impact of the tax relief measures announced in the October *Economic Statement and Budget Update*, as well as the timing of receipts between February and March.
- Corporate income tax revenues were up 11.4 per cent, reflecting higher corporate profits in 2000.
- Employment insurance (EI) premium revenues were up 5.9 per cent, as increases in the number of people employed more than offset the reductions in premium rates.
- Excise taxes and duties were up 6.6 per cent, primarily reflecting strong growth in goods and services tax (GST) revenues and in customs import duties.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	2000	2001	1999-00	2000-01
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	14,864	15,359	164,682	177,246
Program spending	-11,196	-12,327	-108,285	-115,999
Operating surplus	3,668	3,032	56,397	61,247
Public debt charges	-3,417	-3,564	-41,273	-41,412
Budgetary balance (deficit/surplus)	251	-532	15,124	19,835
<b>Non-budgetary transactions</b>	3,611	6,411	1,288	-405
<b>Financial requirements/source</b>				
(excluding foreign exchange transactions)	3,862	5,879	16,412	19,430
<b>Foreign exchange transactions</b>	-1,868	-6,767	-9,451	-8,516
<b>Net financial balance</b>	1,994	-888	6,961	10,914
<b>Net change in borrowings</b>	-130	582	-3,178	-10,682
<b>Net change in cash balances</b>	1,864	-306	3,783	232
<b>Cash balance at end of period</b>			13,004	13,179

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Non-tax revenues were up strongly, reflecting higher net profits relating to activities in the Exchange Fund Account.

On a year-over-year basis, program spending increased by 10.1 per cent. Among the major components:

- Major transfers to persons were up 2.4 per cent, as both elderly benefit payments and EI benefit payments were higher.
- Major transfers to other levels of government were up 18.1 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and equalization programs.
- Direct program spending increased 11.7 per cent, primarily reflecting the inclusion of the policy initiatives mentioned above.

Public debt charges, on a year-over year basis, were up 4.3 per cent, as an increase in the average effective interest rate offset the impact of the decline in the stock of interest-bearing debt.

## April 2000 to March 2001: budgetary results

In the April 2000 to March 2001 period, the budgetary surplus was estimated at \$19.8 billion, up \$4.7 billion from the surplus of \$15.1 billion reported in the same period of 1999-2000.

Budgetary revenues were up \$12.6 billion, or 7.6 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$3.7 billion, or 4.7 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher remittances from quarterly filers. Dampening the impact of these factors was the effect of the tax relief measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation year.

Table 2

## Budgetary revenues

	March		Change	April to March		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,165	4,546	-12.0	77,668	81,350	4.7
Corporate income tax	2,109	2,349	11.4	23,251	27,619	18.8
Other income tax revenue	450	692	53.8	3,472	4,216	21.4
Total income tax	7,724	7,587	-1.8	104,391	113,185	8.4
<b>Employment insurance premium revenues</b>	1,736	1,839	5.9	18,504	18,732	1.2
<b>Excise taxes and duties</b>						
Goods and services tax	1,527	1,619	6.0	22,975	24,812	8.0
Customs import duties	177	274	54.8	2,212	2,791	26.2
Sales and excise taxes	704	674	-4.3	8,168	8,224	0.7
Total excise taxes and duties	2,408	2,567	6.6	33,355	35,827	7.4
<b>Total tax revenues</b>	11,868	11,993	1.1	156,250	167,744	7.4
<b>Non-tax revenues</b>	2,996	3,366	12.3	8,432	9,502	12.7
<b>Total budgetary revenues</b>	14,864	15,359	3.3	164,682	177,246	7.6

Increases in the Canada Child Tax Benefit, up 13.4 per cent (reflecting increases to average benefits, which came into effect July 1, 2000, and the indexation of benefits), also served to restrain the overall growth in personal income tax revenues.

- Corporate income tax revenues were up \$4.4 billion, or 18.8 per cent, in line with the estimated increase of 23.4 per cent in corporate profits for 2000.
- EI premium revenues were up \$0.2 billion, or 1.2 per cent, as the decline in premium rates for 2000 and 2001 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$2.5 billion, or 7.4 per cent. GST revenues were up \$1.8 billion, or 8.0 per cent, in line with the growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.

- Non-tax revenues were up \$1.1 billion, or 12.7 per cent, primarily reflecting higher Bank of Canada and Exchange Fund Account profits and interest on bank balances.

Program spending increased by \$7.7 billion, or 7.1 per cent, in the April 2000 to March 2001 period, compared to the same period in 1999-2000. Among the major components, major transfers to other levels of government were up \$3.4 billion, direct program spending was up \$2.4 billion, while major transfers to persons were up \$1.9 billion.

- The increase in major transfers to persons was attributable to the heating expense relief payment (\$1.4 billion) and higher elderly benefits, up \$0.8 billion, reflecting an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were down \$0.3 billion, reflecting fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

Budgetary expenditures						
	March			April to March		
	2000	2001	Change	1999-00	2000-01	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,000	2,057	2.8	23,421	24,245	3.5
Employment insurance benefits	1,015	1,030	1.5	11,340	10,999	-3.0
Heating expense relief					1,434	
Total	3,015	3,087	2.4	34,761	36,678	5.5
Other levels of government						
Canada Health and Social Transfer	1,041	1,125	8.1	12,500	13,500	8.0
Fiscal transfers	692	907	31.1	10,687	12,303	15.1
Medical Equipment Fund					1,000	
Alternative Payments for Standing Programs	-187	-206	10.2	-2,251	-2,466	9.6
Total	1,546	1,826	18.1	20,936	24,337	16.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	134	633	372.4	1,550	1,232	-20.5
Foreign Affairs	327	291	-11.0	1,901	1,713	-9.9
Health	118	97	-17.8	1,050	1,107	5.4
Human Resources Development	229	363	58.5	1,579	1,685	6.7
Indian and Northern Development	217	144	-33.6	3,705	3,886	4.9
Industry and Regional Development	1,324	407	-69.3	2,632	1,720	-34.7
Veterans Affairs	121	125	3.3	1,397	1,458	4.4
Other	442	652	47.5	2,402	2,635	9.7
Total	2,912	2,712	-6.9	16,216	15,436	-4.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	66	43	-34.8	871	902	3.6
Canada Mortgage and Housing Corporation	150	320	113.3	1,795	1,990	10.9
Other	55	91	65.5	985	1,383	40.4
Total	271	454	67.5	3,651	4,275	17.1
Operating and capital expenditures						
Defence	1,127	1,436	27.4	10,775	10,992	2.0
All other departmental expenditures	2,325	2,812	20.9	21,946	24,281	10.6
Total	3,452	4,248	23.1	32,721	35,273	7.8
Total direct program spending	6,635	7,414	11.7	52,588	54,984	4.6
<b>Total program expenditures</b>	11,196	12,327	10.1	108,285	115,999	7.1
<b>Public debt charges</b>	3,417	3,564	4.3	41,273	41,412	0.3
<b>Total budgetary expenditures</b>	14,613	15,891	8.7	149,558	157,411	5.3
Memorandum item:						
Total transfers	7,473	7,625	2.0	71,913	76,451	6.3

- Major transfers to other levels of government were up 16.2 per cent, reflecting higher cash transfers under the CHST and equalization programs, as well as the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached last September by the first ministers on health renewal and early childhood development. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 4.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the impact of new initiatives announced during 2000-01 and the lifting of the wage freeze.

Public debt charges were virtually unchanged, as the impact of the decline in the stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

## **Financial source of \$19.4 billion (excluding foreign exchange transactions) for April 2000 to March 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial

requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$0.4 billion in the April 2000 to March 2001 period, compared to a net source of \$1.3 billion in the same period in 1999-2000. This was attributable, in part, to payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of \$19.8 billion and a net requirement of \$0.4 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$19.4 billion in the April 2000 to March 2001 period, compared to a financial source of \$16.4 billion in the same period in 1999-2000.

## **Net financial source of \$10.9 billion for April 2000 to March 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$8.5 billion in the April 2000 to March 2001 period, compared to a net requirement of \$9.5 billion in the same period in 1999-2000.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	March		April to March	
	2000	2001	1999-00	2000-01
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	251	-532	15,124	19,835
<b>Loans, investments and advances</b>				
Crown corporations	12	99	540	504
Other	63	-87	148	-976
Total	75	12	688	-472
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	893	578	835	192
Superannuation accounts	550	-24	5,078	1,346
Other	74	8	26	117
Total	1,517	562	5,939	1,655
<b>Other transactions</b>	2,019	5,837	-5,339	-1,588
<b>Total non-budgetary transactions</b>	3,611	6,411	1,288	-405
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,862	5,879	16,412	19,430
<b>Foreign exchange transactions</b>	-1,868	-6,767	-9,451	-8,516
<b>Net financial balance</b>	1,994	-888	6,961	10,914

Table 5

## Net financial balance and net borrowings

	March		April to March	
	2000	2001	1999-00	2000-01
(\$ millions)				
<b>Net financial balance</b>	1,994	-888	6,961	10,914
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-8,499	-9,694	-2,142	700
Canada Savings Bonds	-523	18	-1,400	-736
Treasury bills	8,250	7,000	2,900	-11,150
Other	-354	-17	-638	-79
Total	-1,126	-2,693	-1,280	-11,265
Payable in foreign currencies				
Marketable bonds	0	3,003	2,488	-1,164
Notes and loans	0	-1,385		0
Canada bills	996	1,094	-4,122	1,220
Canada notes	0	563	-264	527
Total	996	3,275	-1,898	583
<b>Net change in borrowings</b>	-130	582	-3,178	-10,682
<b>Change in cash balance</b>	1,864	-306	3,783	232



Table 6

## Condensed statement of assets and liabilities

	March 31, 2000	March 31, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	38,676	-2,072
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,692	1,346
Canada Pension Plan (net of securities)	6,217	6,409	192
Other pension and other accounts	6,963	7,080	117
Total pension and other accounts	141,526	143,181	1,655
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	294,627	700
Treasury bills	99,850	88,700	-11,150
Canada Savings Bonds	26,489	25,753	-736
Non-marketable bonds and bills	3,552	3,473	-79
Subtotal	423,818	412,553	-11,265
Payable in foreign currencies	32,588	33,171	583
Total unmaturred debt	456,406	445,724	-10,682
Total interest-bearing debt	597,932	588,905	-9,027
Total liabilities	638,680	627,581	-11,099
<b>Assets</b>			
Cash and accounts receivable	18,864	18,612	-252
Foreign exchange accounts	41,494	50,010	8,516
Loans, investments and advances (net of allowances)	13,796	14,268	472
Total assets	74,154	82,890	8,736
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>544,691</b>	<b>-19,835</b>

With a budgetary surplus of \$19.8 billion, a net requirement of \$0.4 billion from non-budgetary transactions and a net requirement of \$8.5 billion from foreign exchange transactions, there was a net financial source of \$10.9 billion in the April 2000 to March 2001 period, compared to a net source of \$7.0 billion in the same period in 1999-2000.

## **Net borrowings down \$10.7 billion for April 2000 to March 2001**

This financial source has allowed the Government to reduce its holding of market debt by \$10.7 billion to the end of March 2001. In addition, cash balances increased by \$0.2 billion to stand at \$13.2 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for April 2001

### Budgetary surplus of \$4.6 billion in April 2001

There was a budgetary surplus of \$4.6 billion in April 2001, up \$1.6 billion from the surplus of \$3.0 billion in April 2000. This year-over-year improvement was primarily attributable to timing factors associated with the final payment of personal income taxes with respect to the 2000 taxation year.

On a year-over year basis, budgetary revenues were up \$2.3 billion, or 15.5 per cent, with most of the increase concentrated in higher personal income tax collections.

- Personal income tax collections were up \$1.6 billion, or 21.9 per cent. Most of this increase was attributable to higher final tax settlement payments with respect to taxation year 2000. Last year, the final date for filing personal income taxes was extended from April 30<sup>th</sup> (which fell on a Sunday) to May 1<sup>st</sup>. As a result, final settlement payments with respect to the 1999 taxation year were largely recorded in May 2000. This year, the final filing date was April 30<sup>th</sup>. As a result, the year-over-year results were affected by the difference in filing dates. Monthly deductions from employment income were virtually unchanged, compared to the same period last year.
- Corporate income tax collections increased \$0.2 billion, or 9.3 per cent. This increase primarily reflects the tax installment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly installments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement

payments made within 60 days of the end of their taxation year. Throughout most of 2000-01, monthly tax installments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly installment payments understated the final tax liability for 2000-01. With monthly installments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.

- Employment insurance premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up \$0.4 billion, or 14.5 per cent, primarily reflecting strong growth in goods and services tax revenues. However, part of this increase was due to the timing of refunds and rebates, which were down 10 per cent on a year-over-year basis.
- Non-tax revenues were up nearly 9.5 per cent.

On a year-over-year basis, program spending increased by 8.0 per cent, or \$0.7 billion, with most of the increase attributable to higher transfers to other levels of government.

- Major transfers to persons were up 4.6 per cent, as both elderly benefit and employment insurance payments were higher.
- Major transfers to other levels of government were up 28.3 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and higher Equalization entitlements. The increase in CHST reflected the September 2000 agreement reached by





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	April	
	2000	2001
	(\$ millions)	
<b>Budgetary transactions</b>		
Revenues	14,937	17,249
Program spending	-8,616	-9,308
Operating surplus	6,321	7,941
Public debt charges	-3,368	-3,389
Budgetary balance (deficit/surplus)	2,953	4,552
<b>Non-budgetary transactions</b>	-5,253	-4,993
<b>Financial requirements/source</b> <b>(excluding foreign exchange transactions)</b>	-2,300	-441
<b>Foreign exchange transactions</b>	955	158
<b>Net financial balance</b>	-1,345	-283
<b>Net change in borrowings</b>	-5,788	70
<b>Net change in cash balances</b>	-7,133	-213
<b>Cash balance at end of period</b>	5,818	12,965

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

First Ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in Equalization entitlements was attributable to the continued stronger growth in Ontario than in the equalization-receiving provinces.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased by 1.5 per cent. Subsidies and other transfers declined 2.2 per cent while payments to Crown corporations advanced by 20.5 per cent. Defence spending increased, while all other departmental expenditures declined. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges were up slightly as the impact of the decline in the stock of interest-bearing debt was offset by a slight increase in the average effective interest rate.

### Financial requirement of \$0.4 billion (excluding foreign exchange transactions) in April 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Table 4

## The budgetary balance and financial requirements/surplus

	April	
	2000	2001
	(\$ millions)	
<b>Budgetary balance (deficit/surplus)</b>	2,953	4,552
<b>Loans, investments and advances</b>		
Crown corporations	0	132
Other	105	-14
Total	105	118
<b>Specified purpose accounts</b>		
Canada Pension Plan Account	-394	-400
Superannuation accounts	317	46
Other	-44	21
Total	-121	-333
<b>Other transactions</b>	-5,237	-4,778
<b>Total non-budgetary transactions</b>	-5,253	-4,993
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-2,300	-441
<b>Foreign exchange transactions</b>	955	158
<b>Net financial balance</b>	-1,345	-283

Table 5

## Net financial balance and net borrowings

	April	
	2000	2001
	(\$ millions)	
<b>Net financial balance</b>	-1,345	-283
<b>Net increase (+)/decrease (-) in borrowings</b>		
Payable in Canadian dollars		
Marketable bonds	1,900	1,371
Canada Savings Bonds	-5	-1
Treasury bills	-7,250	-700
Other	0	0
Total	-5,355	670
Payable in foreign dollars		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-433	-490
Canada notes	0	-110
Total	-433	-600
<b>Net change in borrowings</b>	-5,788	70
<b>Change in cash balance</b>	-7,133	-213

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	April		Change (%)
	2000 (\$ millions)	2001	
<b>Transfer payments to:</b>			
Persons			
Elderly benefits	1,997	2,063	3.3
Employment insurance benefits	1,038	1,113	7.2
Total	3,035	3,176	4.6
Other levels of government			
Canada Health and Social Transfer	1,125	1,441	28.1
Fiscal transfers	832	1,005	20.8
Alternative Payments for Standing Programs	-206	-200	-2.9
Total	1,751	2,246	28.3
<b>Direct program spending</b>			
Subsidies and other transfers			
Agriculture	9	38	322.2
Foreign Affairs	55	122	121.8
Health	63	10	-84.1
Human Resources Development	8	26	225.0
Indian and Northern Development	842	690	-18.1
Industry and Regional Development	27	112	314.8
Veterans Affairs	116	118	1.7
Other	242	216	-10.7
Total	1,362	1,332	-2.2
Payments to Crown corporations			
Canadian Broadcasting Corporation	173	200	15.6
Canada Mortgage and Housing Corporation	150	158	5.3
Other	140	200	42.9
Total	463	558	20.5
Operating and capital expenditures			
Defence	490	605	23.5
All other departmental expenditures	1,515	1,391	-8.2
Total	2,005	1,996	-0.4
Total direct program spending	3,830	3,886	1.5
<b>Total program expenditures</b>	8,616	9,308	8.0
<b>Public debt charges</b>	3,368	3,389	0.6
<b>Total budgetary expenditures</b>	11,984	12,697	5.9
Memorandum item:			
Total transfers	6,148	6,754	9.9



# The Fiscal Monitor

Table 2

## Budgetary revenues

	April		Change
	2000	2001	
	(\$ millions)		(%)
<b>Income taxes</b>			
Personal income tax	7,347	8,953	21.9
Corporate income tax	1,963	2,146	9.3
Other income tax revenue	342	364	6.4
Total income tax	9,652	11,463	18.8
<b>Employment insurance premium revenues</b>	1,784	1,809	1.4
<b>Excise taxes and duties</b>			
Goods and services tax	2,077	2,449	17.9
Customs import duties	160	169	5.6
Sales and excise taxes	612	645	5.4
Total excise taxes and duties	2,849	3,263	14.5
<b>Total tax revenues</b>	14,285	16,535	15.8
<b>Non-tax revenues</b>	652	714	9.5
<b>Total budgetary revenues</b>	14,937	17,249	15.5

Non-budgetary transactions resulted in a net requirement of \$5.0 billion in April 2001, down from a net requirement of \$5.3 billion in April 2000. The lower requirement primarily reflected the first installment of pay equity settlement payments in the April 2000 results, which amounted to \$1.6 billion.

As a result, with a budgetary surplus of \$4.6 billion and a net requirement of \$5.0 billion, there was a financial requirement (excluding foreign exchange transactions) of \$0.4 billion in April 2001, compared to a requirement of \$2.3 billion in April 2000.

### Net financial requirement of \$0.3 billion in April 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills

this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$158 million in April 2001, compared to a net source of \$1.0 billion in April 2000.

With a budgetary surplus of \$4.6 billion, a net requirement of \$5.0 billion from non-budgetary transactions and a net source of funds of \$0.2 billion from foreign exchange transactions, there was a net financial requirement of \$0.3 billion in April 2001, compared to a net requirement of \$1.3 billion in April 2000.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	April 30, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,511	39,611	-3,900
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,738	46
Canada Pension Plan (net of securities)	6,409	6,009	-400
Other pension and other accounts	7,080	7,101	21
Total pension and other accounts	143,181	142,848	-333
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	295,998	1,371
Treasury bills	88,700	88,000	-700
Canada Savings Bonds	25,753	25,752	-1
Non-marketable bonds and bills	3,473	3,473	0
Subtotal	412,553	413,223	670
Payable in foreign dollars	33,171	32,571	-600
Total unmaturred debt	445,724	445,794	70
Total interest-bearing debt	588,905	588,642	-263
Total liabilities	632,416	628,253	-4,163
<b>Assets</b>			
Cash and accounts receivable	18,612	18,725	113
Foreign exchange accounts	50,010	50,168	158
Loans, investments and advances (net of allowances)	14,268	14,386	118
Total assets	82,890	83,279	389
<b>Accumulated deficit (net public debt)<sup>1</sup></b>	<b>549,526</b>	<b>544,974</b>	<b>-4,552</b>

<sup>1</sup> Assumes fiscal balance of \$15 billion for 2000-01.

## Net borrowings up slightly

This financial requirement was financed by a draw down in cash balances of \$0.2 billion and an increase of \$0.1 billion in net borrowings.

Cash balances at the end of April 2001 stood at \$13.0 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.



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# The Fiscal Monitor

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## Highlights

### May 2001: budgetary surplus of \$2.9 billion

There was a budgetary surplus of \$2.9 billion in May 2001, compared to a surplus of \$3.5 billion in May 2000. This year-over-year decline of \$0.6 billion in the surplus was attributable to slightly lower budgetary revenues, coupled with higher program spending and public debt charges.

### April 2001 to May 2001: budgetary surplus of \$7.4 billion

The budgetary surplus was estimated at \$7.4 billion for the April 2001 to May 2001 period, compared to the surplus of \$6.5 billion reported in the same period of 2000-01. The increase in the year-over-year surplus was largely attributable to higher personal income tax settlement payments with respect to taxation year 2000. These payments were related to extraordinary developments, primarily the strong increase in capital gains for the 2000 taxation year.

### May 2001: budgetary results

Budgetary revenues declined \$0.1 billion, or 0.5 per cent, in May 2001 on a year-over-year basis. All components except corporate and other income tax revenues were lower.

- Personal income tax revenues declined slightly, as higher final settlement payments related to the 2000 taxation year were more than offset by lower tax deductions from employment income, higher refunds and higher Canada Child Tax Benefit payments. The decline in tax deductions from employment income reflected the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, which came into effect on July 1, 2000, and January 1, 2001.
- Corporate income tax revenues were up \$0.3 billion, or 14.3 per cent. This increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's

projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01, monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.

- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were down \$0.2 billion, or 6.3 per cent. This decline reflected the timing of the payments of goods and services tax refunds and rebates, as noted in the April 2001 *Fiscal Monitor*.
- Non-tax revenues were down sharply, primarily reflecting the timing of receipts.





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	May		April to May	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,432	15,353	30,370	32,601
Program spending	-8,547	-9,062	-17,165	-18,370
Operating surplus	6,885	6,291	13,205	14,231
Public debt charges	-3,387	-3,405	-6,754	-6,794
Budgetary balance (deficit/surplus)	3,498	2,886	6,451	7,437
<b>Non-budgetary transactions</b>	2,711	1,853	-2,541	-3,139
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	6,209	4,739	3,910	4,298
<b>Foreign exchange transactions</b>	658	-295	1,613	-137
<b>Net financial balance</b>	6,867	4,444	5,523	4,161
<b>Net change in borrowings</b>	149	-883	-5,640	-813
<b>Net change in cash balances</b>	7,016	3,561	-117	3,348
<b>Cash balance at end of period</b>			12,743	16,530

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

On a year-over-year basis, program spending increased by \$0.5 billion, or 6.0 per cent. Among the major components:

- Major transfers to persons were up 3.1 per cent, reflecting higher elderly benefit payments as EI payments were lower.
- Major transfers to other levels of government were up 14.8 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The decline in fiscal transfers was attributable to the timing of transfers to the territories.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 3.6 per cent. Subsidies and other transfers, and payments to Crown corporations, were up strongly, largely offset by lower operating and capital expenditures.

The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over-year basis, were up slightly, as an increase in the average effective interest rate largely offset the impact of the decline in the stock of interest-bearing debt.

### April 2001 to May 2001: budgetary results

Over the first two months of fiscal year 2001-02, the budgetary surplus was estimated at \$7.4 billion, up \$1 billion from the surplus reported in the same period of 2000-01. This increase in the surplus primarily reflects personal income tax settlement payments with respect to the 2000 taxation year.

Budgetary revenues were up \$2.2 billion, or 7.3 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were up \$1.6 billion, or 10.6 per cent. All of this increase was attributable to final tax payments with respect to the 2000 taxation year, reflecting

Table 2

## Budgetary revenues

	May		Change	April to May		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,279	7,225	-0.7	14,628	16,178	10.6
Corporate income tax	2,076	2,373	14.3	4,039	4,519	11.9
Other income tax revenue	250	305	22.0	593	670	13.0
Total income tax	9,605	9,903	3.1	19,260	21,367	10.9
<b>Employment insurance premium revenues</b>	1,775	1,770	-0.3	3,559	3,579	0.6
<b>Excise taxes and duties</b>						
Goods and services tax	2,520	2,158	-14.4	4,597	4,607	0.2
Customs import duties	130	226	73.8	290	395	36.2
Sales and excise taxes	681	736	8.1	1,293	1,382	6.9
Total excise taxes and duties	3,331	3,120	-6.3	6,180	6,384	3.3
<b>Total tax revenues</b>	14,711	14,793	0.6	28,999	31,330	8.0
<b>Non-tax revenues</b>	721	560	-22.3	1,371	1,271	-7.3
<b>Total budgetary revenues</b>	15,432	15,353	-0.5	30,370	32,601	7.3

extraordinary developments in taxation year 2000. These included, among others, strong increases in capital gains for the 2000 taxation year. Dampening the impact of these settlement payments were higher refunds, reflecting the faster processing of returns to date, and the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. The tax reduction measures include the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit.

- Corporate income tax revenues were up \$0.5 billion, or 11.9 per cent. This is considerably stronger than the reported increase in corporate profits so far this year, which suggests that the current experience reflects the effects of the remittance procedures and should be reversed once corporations file their final payments following the end of their taxation year.

- EI premium revenues were up marginally, as the decline in premium rates for 2000 and 2001 virtually offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$0.2 billion, or 3.3 per cent. Most of the increase was the result of higher customs import duties.
- Non-tax revenues were down 7.3 per cent.

Program spending increased by \$1.2 billion, or 7.0 per cent, in the April 2001 to May 2001 period, compared to the same period last year.

- Transfers to persons were up 3.9 per cent, attributable to higher elderly benefits, reflecting an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation, and an increase in EI benefit payments.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	May		Change	April to May		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,972	2,091	6.0	3,969	4,154	4.7
Employment insurance benefits	906	875	-3.4	1,944	1,988	2.3
Total	2,878	2,966	3.1	5,913	6,142	3.9
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	2,250	2,883	28.1
Fiscal transfers	1,064	1,035	-2.7	1,895	2,041	7.7
Alternative Payments for Standing Programs	-205	-200	-2.4	-411	-400	-2.7
Total	1,984	2,277	14.8	3,734	4,524	21.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	14	192	1,271.4	22	230	945.5
Foreign Affairs	89	62	-30.3	144	184	27.8
Health	125	188	50.4	188	198	5.3
Human Resources Development	60	127	111.7	68	152	123.5
Indian and Northern Development	317	225	-29.0	1,158	916	-20.9
Industry and Regional Development	124	40	-67.7	152	152	0.0
Veterans Affairs	121	124	2.5	237	242	2.1
Other	96	162	68.8	340	382	12.4
Total	946	1,120	18.4	2,309	2,456	6.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	42	40	-4.8	215	240	11.6
Canada Mortgage and Housing Corporation	150	158	5.3	300	316	5.3
Other	65	92	41.5	205	293	42.9
Total	257	290	12.8	720	849	17.9
Operating and capital expenditures						
Defence	667	602	-9.7	1,157	1,207	4.3
All other departmental expenditures	1,815	1,807	-0.4	3,332	3,192	-4.2
Total	2,482	2,409	-2.9	4,489	4,399	-2.0
Total direct program spending	3,685	3,819	3.6	7,518	7,704	2.5
<b>Total program expenditures</b>	8,547	9,062	6.0	17,165	18,370	7.0
<b>Public debt charges</b>	3,387	3,405	0.5	6,754	6,794	0.6
<b>Total budgetary expenditures</b>	11,934	12,467	4.5	23,919	25,164	5.2
Memorandum item:						
Total transfers	5,808	6,363	9.6	11,956	13,122	9.8



- Major transfers to other levels of government were up 21.2 per cent, reflecting higher cash transfers under the CHST and fiscal transfers programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 2.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges were virtually unchanged, as the impact of the decline in the stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

## **Financial source of \$4.3 billion (excluding foreign exchange transactions) for April 2001 to May 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.1 billion in the first two months of 2001-02, compared to a net requirement of \$2.5 billion in the same period in 2000-01.

As a result, with a budgetary surplus of \$7.4 billion and a net requirement of \$3.1 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$4.3 billion in the April 2001 to May 2001 period, compared to a financial source of \$3.9 billion in the same period last year.

## **Net financial source of \$4.2 billion for April 2001 to May 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.1 billion in the first two months of 2001-02, compared to a net source of \$1.6 billion in the same period in 2000-01.

With a budgetary surplus of \$7.4 billion, a net requirement of \$3.1 billion from non-budgetary transactions and a net requirement of \$0.1 billion from foreign exchange transactions, there was a net financial source of \$4.2 billion in the April 2001 to May 2001 period, compared to a net source of \$5.5 billion in the same period in 2000-01.

## **Net borrowings down \$0.8 billion for April 2001 to May 2001**

This financial source has allowed the Government to reduce its holding of market debt by \$0.8 billion to the end of May 2001. In addition, cash balances increased by \$3.3 billion to stand at \$16.5 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	May		April to May	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	3,498	2,886	6,451	7,437
<b>Loans, investments and advances</b>				
Crown corporations	7	47	7	180
Other	-10	-42	96	-57
Total	-3	5	103	123
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	219	627	-175	227
Superannuation accounts	236	-241	543	-193
Other	-47	31	-90	51
Total	398	417	278	85
<b>Other transactions</b>	2,316	1,431	-2,922	-3,347
<b>Total non-budgetary transactions</b>	2,711	1,853	-2,541	-3,139
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	6,209	4,739	3,910	4,298
<b>Foreign exchange transactions</b>	658	-295	1,613	-137
<b>Net financial balance</b>	6,867	4,444	5,523	4,161

Table 5

## Net financial balance and net borrowings

	May		April to May	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Net financial balance</b>	6,867	4,444	5,523	4,161
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	3,362	-225	5,262	1,146
Canada Savings Bonds	-141	-79	-147	-80
Treasury bills	-1,700	-300	-8,950	-1,000
Other	200	0	-200	0
Total	1,721	-604	-3,635	66
Payable in foreign currencies				
Marketable bonds	-2,174	-1,576	-2,174	-1,576
Notes and loans				
Canada bills	602	1,360	169	870
Canada notes		-63		-173
Total	-1,572	-279	-2,005	-879
<b>Net change in borrowings</b>	149	-883	-5,640	-813
<b>Change in cash balance</b>	7,016	3,561	-117	3,348

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	May 31, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,511	40,164	-3,347
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,499	-193
Canada Pension Plan (net of securities)	6,409	6,636	227
Other pension and other accounts	7,080	7,131	51
Total pension and other accounts	143,181	143,266	85
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	295,773	1,146
Treasury bills	88,700	87,700	-1,000
Canada Savings Bonds	25,753	25,673	-80
Other	3,473	3,473	0
Subtotal	412,553	412,619	66
Payable in foreign currencies	33,171	32,292	-879
Total unmaturred debt	445,724	444,911	-813
Total interest-bearing debt	588,905	588,177	-728
Total liabilities	632,416	628,341	-4,075
<b>Assets</b>			
Cash and accounts receivable	18,612	21,960	3,348
Foreign exchange accounts	50,010	50,147	137
Loans, investments and advances (net of allowances)	14,268	14,145	-123
Total assets	82,890	86,252	3,362
<b>Accumulated deficit (net public debt)</b>	<b>549,526</b>	<b>542,089</b>	<b>-7,437</b>

Note: Assumes fiscal balance of \$15 billion for 2000-01.



## Note to Readers:

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the

implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at [www.fin.gc.ca](http://www.fin.gc.ca).



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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### June 2001: budgetary surplus of \$2.5 billion

There was a budgetary surplus of \$2.5 billion in June 2001, up slightly from the surplus of \$2.3 billion in June 2000. This year-over-year increase was attributable to somewhat higher budgetary revenues, as total expenditures were virtually unchanged.

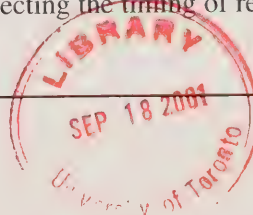
### April 2001 to June 2001: budgetary surplus of \$9.9 billion

The budgetary surplus was estimated at \$9.9 billion for the April 2001 to June 2001 period, compared to the surplus of \$8.7 billion reported in the same period of 2000-01. The increase in the year-over-year surplus was largely attributable to higher personal income tax settlement payments with respect to the 2000 taxation year. These payments related to extraordinary developments, primarily the strong increase in capital gains for the 2000 taxation year.

### June 2001: budgetary results

Budgetary revenues increased \$0.2 billion, or 1.1 per cent, in June 2001 on a year-over-year basis. Among the major components, only personal income tax revenues were lower.

- Personal income tax revenues declined by \$0.5 billion, or 7.4 per cent, primarily reflecting lower deductions from employment income, largely attributable to the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, which came into effect on July 1, 2000, and January 1, 2001. Lower refunds, reflecting timing factors, served to dampen the overall decline.
- Corporate income tax revenues were up \$0.2 billion, or 8.0 per cent. As noted in previous Fiscal Monitors, the current year-over-year increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01, monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.
- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up \$0.4 billion, or 14.7 per cent. This increase reflected strong advances in both goods and service tax revenues and customs import duties, in part attributable to the timing of payments and refunds.
- Non-tax revenues were up strongly, primarily reflecting the timing of receipts.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	June		April to June	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,860	15,029	45,229	47,631
Program spending	-9,113	-9,446	-26,276	-27,816
Operating surplus	5,747	5,583	18,953	19,815
Public debt charges	-3,450	-3,111	-10,205	-9,904
Budgetary balance (deficit/surplus)	2,297	2,472	8,748	9,911
<b>Non-budgetary transactions</b>	-7,253	-7,567	-9,802	-10,704
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-4,956	-5,095	-1,054	-793
<b>Foreign exchange transactions</b>	555	449	2,168	312
<b>Net financial balance</b>	-4,401	-4,646	1,114	-481
<b>Net change in borrowings</b>	353	-8,170	-5,286	-8,983
<b>Net change in cash balances</b>	-4,048	-12,816	-4,172	-9,464
<b>Cash balance at end of period</b>			8,789	3,708

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

On a year-over-year basis, program spending increased by \$0.3 billion, or 3.7 per cent, reflecting strong increases in transfers to persons and other levels of government, dampened by lower direct program spending. Among the major components:

- Major transfers to persons were up \$0.2 billion, or 8.4 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments primarily reflects the impact of policy enhancements announced in the February 2000 budget and last September.
- Major transfers to other levels of government were up \$0.4 billion, or 20.4 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, declined by \$0.3 billion, or 6.4 per cent. Subsidies and other transfers, payments to Crown corporations and non-defence departmental operating and capital expenditures were lower. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, were down \$0.3 billion, or 9.8 per cent, largely reflecting adjustments to previous months' estimates.

### April 2001 to June 2001: budgetary results

Over the first three months of fiscal year 2001-02, the budgetary surplus was estimated at \$9.9 billion, up \$1.2 billion from the surplus reported in the same period of 2000-01. This increase in the surplus primarily reflects higher personal income tax settlement payments with respect to the 2000 taxation year.



Table 2

## Budgetary revenues

	June		Change	April to June		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,215	6,682	-7.4	21,842	22,860	4.7
Corporate income tax	2,141	2,312	8.0	6,180	6,832	10.6
Other income tax revenue	218	243	11.5	811	913	12.6
Total income tax	9,574	9,237	-3.5	28,833	30,605	6.1
<b>Employment insurance premium revenues</b>	1,750	1,748	-0.1	5,309	5,327	0.3
<b>Excise taxes and duties</b>						
Goods and services tax	1,898	2,196	15.7	6,495	6,804	4.8
Customs import duties	165	278	68.5	455	673	47.9
Sales and excise taxes	786	794	1.0	2,079	2,174	4.6
Total excise taxes and duties	2,849	3,268	14.7	9,029	9,651	6.9
<b>Total tax revenues</b>	14,173	14,253	0.6	43,171	45,583	5.6
<b>Non-tax revenues</b>	687	776	13.0	2,058	2,048	-0.5
<b>Total budgetary revenues</b>	14,860	15,029	1.1	45,229	47,631	5.3

Budgetary revenues were up \$2.4 billion, or 5.3 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were up \$1.0 billion, or 4.7 per cent. All of this increase was attributable to final tax payments received in April and May with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains. Dampening the impact of these settlement payments was the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. These included the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit.
- Corporate income tax revenues were up \$0.7 billion, or 10.6 per cent. This is considerably stronger than the reported increase

in corporate profits so far this year, which suggests that the current experience reflects the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.

- EI premium revenues were up marginally, as the decline in premium rates for 2000 and 2001 virtually offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$0.6 billion, or 6.9 per cent, in line with the underlying increase in consumer expenditures.
- Non-tax revenues were down slightly.

Program spending increased by \$1.5 billion, or 5.9 per cent, in the April 2001 to June 2001 period, compared to the same period last year.

- Transfers to persons were up 5.3 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	June		Change	April to June		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,967	2,050	4.2	5,936	6,204	4.5
Employment insurance benefits	757	903	19.3	2,702	2,891	7.0
Total	2,724	2,953	8.4	8,638	9,095	5.3
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	3,375	4,325	28.1
Fiscal transfers	991	1,057	6.7	2,886	3,099	7.4
Alternative Payments for Standing Programs	-206	-200	-2.9	-617	-600	-2.8
Total	1,910	2,299	20.4	5,644	6,824	20.9
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	5	152		27	381	
Foreign Affairs	99	141	42.4	243	325	33.7
Health	66	75	13.6	254	273	7.5
Human Resources Development	228	86	-62.3	296	239	-19.3
Indian and Northern Development	323	255	-21.1	1,481	1,171	-20.9
Industry and Regional Development	131	174	32.8	283	326	15.2
Veterans Affairs	118	123	4.2	355	366	3.1
Other	474	162	-65.8	812	542	-33.3
Total	1,444	1,168	-19.1	3,751	3,623	-3.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	70	80	14.3	285	320	12.3
Canada Mortgage and Housing Corporation	170	158	-7.1	470	474	0.9
Other	144	96	-33.3	349	389	11.5
Total	384	334	-13.0	1,104	1,183	7.2
Operating and capital expenditures						
Defence	874	1,109	26.9	2,032	2,318	14.1
All other departmental expenditures	1,777	1,583	-10.9	5,107	4,773	-6.5
Total	2,651	2,692	1.5	7,139	7,091	-0.7
Total direct program spending	4,479	4,194	-6.4	11,994	11,897	-0.8
<b>Total program expenditures</b>	9,113	9,446	3.7	26,276	27,816	5.9
<b>Public debt charges</b>	3,450	3,111	-9.8	10,205	9,904	-2.9
<b>Total budgetary expenditures</b>	12,563	12,557	0.0	36,481	37,720	3.4
Memorandum item:						
Total transfers	6,078	6,420	5.6	18,033	19,542	8.4

payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of the program enhancements.

- Major transfers to other levels of government were up 20.9 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 0.8 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges were down 2.9 per cent, reflecting the impact of declines in both the stock of interest-bearing debt and in the average effective interest rate on that debt.

## **Financial requirement of \$0.8 billion (excluding foreign exchange transactions) for April 2001 to June 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial

assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.7 billion in the first three months of 2001-02, compared to a net requirement of \$9.8 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$9.9 billion and a net requirement of \$10.7 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$0.8 billion in the April 2001 to June 2001 period, compared to a net requirement of \$1.1 billion in the same period last year.

## **Net financial requirement of \$0.5 billion for April 2001 to June 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.3 billion in the first three months of 2001-02, compared to a net source of \$2.2 billion in the same period in 2000-01.

With a budgetary surplus of \$9.9 billion, a net requirement of \$10.7 billion from non-budgetary transactions and a net source of \$0.3 billion from foreign exchange transactions, there was a net financial requirement of \$0.5 billion in the April 2001 to June 2001 period, compared to a net source of \$1.1 billion in the same period in 2000-01.



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Table 4

## The budgetary balance and financial requirements/source

	June		April to June	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	2,297	2,472	8,748	9,911
<b>Loans, investments and advances</b>				
Crown corporations	188	52	196	232
Other	18	92	113	34
<b>Total</b>	<b>206</b>	<b>144</b>	<b>309</b>	<b>266</b>
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	150	-670	-26	-443
Superannuation accounts	97	-302	640	-496
Other	-134	-75	-227	-22
<b>Total</b>	<b>113</b>	<b>-1,047</b>	<b>387</b>	<b>-961</b>
<b>Other transactions</b>	<b>-7,572</b>	<b>-6,664</b>	<b>-10,498</b>	<b>-10,009</b>
<b>Total non-budgetary transactions</b>	<b>-7,253</b>	<b>-7,567</b>	<b>-9,802</b>	<b>-10,704</b>
<b>Financial requirements/source</b> <b>(excluding foreign exchange transactions)</b>	<b>-4,956</b>	<b>-5,095</b>	<b>-1,054</b>	<b>-793</b>
<b>Foreign exchange transactions</b>	<b>555</b>	<b>449</b>	<b>2,168</b>	<b>312</b>
<b>Net financial balance</b>	<b>-4,401</b>	<b>-4,646</b>	<b>1,114</b>	<b>-481</b>

Table 5

## Net financial balance and net borrowings

	June		April to June	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Net financial balance</b>	<b>-4,401</b>	<b>-4,646</b>	<b>1,114</b>	<b>-481</b>
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	3,963	-3,187	9,226	-2,041
Canada Savings Bonds	-256	-86	-403	-166
Treasury bills	-3,600	-3,600	-12,500	-4,600
Other	500	-4	700	-4
<b>Total</b>	<b>607</b>	<b>-6,877</b>	<b>-2,977</b>	<b>-6,811</b>
Payable in foreign currencies				
Marketable bonds			-2,174	-1,576
Notes and loans		-41		-41
Canada bills	-254	1,252	-85	-382
Canada notes				-173
<b>Total</b>	<b>-254</b>	<b>1,211</b>	<b>-2,259</b>	<b>-2,172</b>
<b>Net change in borrowings</b>	<b>353</b>	<b>-5,666</b>	<b>-5,236</b>	<b>-8,983</b>
<b>Change in cash balance</b>	<b>-4,048</b>	<b>-10,312</b>	<b>-4,122</b>	<b>-9,464</b>

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	June 30, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,511	33,502	-10,009
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,196	-496
Canada Pension Plan (net of securities)	6,409	5,966	-443
Other pension and other accounts	7,080	7,058	-22
Total pension and other accounts	143,181	142,220	-961
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	292,586	-2,041
Treasury bills	88,700	84,100	-4,600
Canada Savings Bonds	25,753	25,587	-166
Other	3,473	3,469	-4
Subtotal	412,553	405,742	-6,811
Payable in foreign currencies	33,171	30,999	-2,172
Total unmaturred debt	445,724	436,741	-8,983
Total interest-bearing debt	588,905	578,961	-9,944
Total liabilities	632,416	612,463	-19,953
<b>Assets</b>			
Cash and accounts receivable	18,612	9,148	-9,464
Foreign exchange accounts	50,010	49,698	-312
Loans, investments and advances (net of allowances)	14,268	14,002	-266
Total assets	82,890	72,848	-10,042
<b>Accumulated deficit (net public debt)</b>	<b>549,526</b>	<b>539,615</b>	<b>-9,911</b>

Note: Assumes fiscal balance of \$15 billion for 2000-01.

## **Net borrowings down \$9 billion for April 2001 to June 2001**

Although there was a net financial requirement in the first three months of 2001-02, the Government did reduce its holding of market debt by \$9 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of June 2001, they stood at \$3.7 billion, down \$9.5 billion from March 31, 2001.

### **Note to Readers:**

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as

expenditures when acquired. In the February 1995 budget, the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget, the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being, the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at [www.fin.gc.ca](http://www.fin.gc.ca).





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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### July 2001: budgetary surplus of \$0.8 billion

There was a budgetary surplus of \$0.8 billion in July 2001, down \$1.0 billion from the revised surplus of \$1.8 billion in July 2000.<sup>1</sup> This year-over-year decline was attributable to lower budgetary revenues (down \$0.5 billion) and higher program spending (up \$0.7 billion), dampened slightly by lower public debt charges (down \$0.2 billion).

### April 2001 to July 2001: budgetary surplus of \$10.7 billion

The budgetary surplus was estimated at \$10.7 billion for the April 2001 to July 2001 period, compared to the surplus of \$10.5 billion reported in the same period of 2000-01. The increase in the year-over-year surplus was attributable to higher personal income tax settlement payments with respect to the 2000 taxation year. These payments related to extraordinary developments, primarily the strong increase in capital gains for the 2000 taxation year. This impact has been largely offset by lower personal income tax revenues from employment income (primarily due to the impact of tax reduction measures) and higher program spending (particularly higher transfers to other levels of government).

<sup>1</sup> The surplus for July 2000 was revised down from the originally reported estimate of \$3.2 billion to \$1.8 billion. This was due to a misclassification of revenues between July 2000 and August 2000. The August 2000 budgetary balance will be adjusted accordingly.

## July 2001: budgetary results

Budgetary revenues decreased \$0.5 billion, or 3.3 per cent, in July 2001 on a year-over-year basis, primarily attributable to lower personal income tax revenues.

- Personal income tax revenues declined by \$1.1 billion, or 15.0 per cent, primarily reflecting timing factors affecting revenues reported in July and August of 2000 (July was up strongly while August receipts were lower) and the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. In addition, payments under the Canada Child Tax Benefit were higher due to enhancements in previous budgets.

- Corporate income tax revenues were up \$0.3 billion, or 19.6 per cent. As noted in previous Fiscal Monitors, the current year-over-year increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01 monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,334	13,868	59,565	61,498
Program spending	-9,066	-9,741	-35,343	-37,557
Operating surplus	5,268	4,127	24,222	23,941
Public debt charges	-3,499	-3,345	-13,703	-13,250
Budgetary balance (deficit/surplus)	1,769	782	10,519	10,691
<b>Non-budgetary transactions</b>	2,421	1,041	-7,377	-9,666
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,190	1,823	3,142	1,025
<b>Foreign exchange transactions</b>	-899	-443	1,268	-131
<b>Net financial balance</b>	3,291	1,380	4,410	894
<b>Net change in borrowings</b>	-7,636	-1,589	-12,921	-10,573
<b>Net change in cash balances</b>	-4,345	-209	-8,511	-9,679
<b>Cash balance at end of period</b>			4,440	3,499

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Numbers for July 2000 have been revised (see footnote in box on first page).

- Employment insurance (EI) premium revenues were slightly lower, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up \$0.1 billion, or 3.8 per cent. This increase reflected strong advances in both customs import duties and sales and excise taxes. The increase in the latter was primarily due to the increase in tobacco excise taxes, which became effective April 6, 2001. Goods and services tax (GST) revenues declined 4.3 per cent, primarily due to an increase in refunds related to under-reporting in previous periods, as well as higher quarterly tax credits, reflecting the indexation of these credits, as announced in the February 2000 budget.
- Non-tax revenues were up strongly, primarily reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$0.7 billion, or 7.4 per cent, reflecting strong increases in transfers to persons and other levels of government. Among the major components:

- Major transfers to persons were up \$0.3 billion, or 11.2 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$0.4 billion, or 20.6 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.

Table 2

## Budgetary revenues

	July		Change	April to July		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,476	6,358	-15.0	29,319	29,217	-0.3
Corporate income tax	1,695	2,028	19.6	7,875	8,859	12.5
Other income tax revenue	298	291	-2.3	1,109	1,203	8.5
Total income tax	9,469	8,677	-8.4	38,303	39,279	2.5
<b>Employment insurance premium revenues</b>	1,667	1,654	-0.8	6,976	6,981	0.1
<b>Excise taxes and duties</b>						
Goods and services tax	1,739	1,664	-4.3	8,233	8,468	2.9
Customs import duties	201	250	24.4	656	923	40.7
Sales and excise taxes	658	784	19.1	2,738	2,959	8.1
Total excise taxes and duties	2,598	2,698	3.8	11,627	12,350	6.2
<b>Total tax revenues</b>	13,734	13,029	-5.1	56,906	58,610	3.0
<b>Non-tax revenues</b>	600	839	39.8	2,659	2,888	8.6
<b>Total budgetary revenues</b>	14,334	13,868	-3.3	59,565	61,498	3.2

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was down slightly, as declines in payments to Crown corporations and operating and capital expenditures more than offset higher subsidies and other transfers. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, were down \$0.2 billion, or 4.4 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## April 2001 to July 2001: budgetary results

Over the first four months of fiscal year 2001-02, the budgetary surplus was estimated at \$10.7 billion, up \$0.2 billion from the surplus reported in the same period of 2000-01. This increase in the surplus primarily reflects higher personal income tax settlement payments with respect to the 2000 taxation year.

Budgetary revenues were up \$1.9 billion, or 3.2 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were marginally lower, down \$0.1 billion, or 0.3 per cent. This decline reflects the timing of payments between July and August of last year as well as the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. These included the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit. Dampening the impact of these factors were higher final tax payments, received in April and May, with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains.



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Table 3

## Budgetary expenditures

	July			April to July		
	2000	2001	Change	2000-01	2001-02	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,012	2,103	4.5	7,948	8,306	4.5
Employment insurance benefits	809	1,035	27.9	3,511	3,926	11.8
Total	2,821	3,138	11.2	11,459	12,232	6.7
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	4,500	5,767	28.2
Fiscal transfers	978	1,045	6.9	3,862	4,143	7.3
Alternative Payments for Standing Programs	-206	-200	-2.9	-822	-800	-2.7
Total	1,897	2,287	20.6	7,540	9,110	20.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	27	41	51.9	54	422	681.5
Foreign Affairs	102	177	73.5	346	503	45.4
Health	99	121	22.2	353	394	11.6
Human Resources Development	115	123	7.0	411	362	-11.9
Indian and Northern Development	262	326	24.4	1,743	1,496	-14.2
Industry and Regional Development	82	104	26.8	365	430	17.8
Veterans Affairs	123	127	3.3	478	493	3.1
Other	73	25	-65.8	883	568	-35.7
Total	883	1,044	18.2	4,633	4,668	0.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	86	80	-7.0	371	400	7.8
Canada Mortgage and Housing Corporation	150	158	5.3	620	632	1.9
Other	128	122	-4.7	475	510	7.4
Total	364	360	-1.1	1,466	1,542	5.2
Operating and capital expenditures						
Defence	948	908	-4.2	2,979	3,227	8.3
All other departmental expenditures	2,153	2,004	-6.9	7,266	6,778	-6.7
Total	3,101	2,912	-6.1	10,245	10,005	-2.3
Total direct program spending	4,348	4,316	-0.7	16,344	16,215	-0.8
<b>Total program expenditures</b>	9,066	9,741	7.4	35,343	37,557	6.3
<b>Public debt charges</b>	3,499	3,345	-4.4	13,703	13,250	-3.3
<b>Total budgetary expenditures</b>	12,565	13,086	4.1	49,046	50,807	3.6
Memorandum item:						
Total transfers	5,601	6,469	15.5	23,632	26,010	10.1

- Corporate income tax revenues were up \$1.0 billion, or 12.5 per cent. In contrast, corporate profits are down on a year-over-year basis, which suggests that the current experience reflects the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.
- EI premium revenues were up marginally, as the decline in premium rates for 2000 and 2001 virtually offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$0.7 billion, or 6.2 per cent. GST revenues were up 2.9 per cent, somewhat less than the underlying increase in consumer expenditures. Customs import duties were up 40.7 per cent, while sales and excise taxes were up 8.1 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 8.6 per cent.

Program spending increased by \$2.2 billion, or 6.3 per cent, in the April 2001 to July 2001 period, compared to the same period last year.

- Transfers to persons were up 6.7 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 20.8 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 0.8 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges were down 3.3 per cent, reflecting the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

## **Financial source of \$1.0 billion (excluding foreign exchange transactions) for April 2001 to July 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.7 billion in the first four months of 2001-02, compared to a net requirement of \$7.4 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$10.7 billion and a net requirement of \$9.7 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.0 billion in the April 2001 to July 2001 period, compared to a source of \$3.1 billion in the same period last year.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,769	782	10,519	10,691
<b>Loans, investments and advances</b>				
Crown corporations	-112	-16	83	217
Other	49	-26	162	7
Total	-63	-42	245	224
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-865	-418	-890	-861
Superannuation accounts	375	50	1,017	-446
Other	11	77	-216	53
Total	-479	-291	-89	-1,254
<b>Other transactions</b>	2,963	1,374	-7,533	-8,636
<b>Total non-budgetary transactions</b>	2,421	1,041	-7,377	-9,666
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,190	1,823	3,142	1,025
<b>Foreign exchange transactions</b>	-899	-443	1,268	-131
<b>Net financial balance</b>	3,291	1,380	4,410	894

Table 5

## Net financial balance and net borrowings

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Net financial balance</b>	3,291	1,380	4,410	894
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-3,075	400	6,151	-1,641
Canada Savings Bonds	-151	-70	-553	-236
Treasury bills	-4,200	-1,500	-16,750	-6,100
Other	250		925	-4
Total	-7,176	-1,170	-10,227	-7,981
Payable in foreign currencies				
Marketable bonds			-2,174	-1,576
Notes and loans				-41
Canada bills	-435	-419	-520	-802
Canada notes				-173
Total	-435	-419	-2,694	-2,592
<b>Net change in borrowings</b>	-7,611	-1,589	-12,921	-10,573
<b>Change in cash balance</b>	-4,320	-209	-8,511	-9,679



Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	July 31, 2001	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,511	34,875	-8,636
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,246	-446
Canada Pension Plan (net of securities)	6,409	5,548	-861
Other pension and other accounts	7,080	7,133	53
Total pension and other accounts	143,181	141,927	-1,254
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	292,986	-1,641
Treasury bills	88,700	82,600	-6,100
Canada Savings Bonds	25,753	25,517	-236
Other	3,473	3,469	-4
Subtotal	412,553	404,572	-7,981
Payable in foreign currencies	33,171	30,579	-2,592
Total unmaturred debt	445,724	435,151	-10,573
Total interest-bearing debt	588,905	577,078	-11,827
Total liabilities	632,416	611,953	-20,463
<b>Assets</b>			
Cash and accounts receivable	18,612	8,933	-9,679
Foreign exchange accounts	50,010	50,141	131
Loans, investments and advances (net of allowances)	14,268	14,044	-224
Total assets	82,890	73,118	-9,772
<b>Accumulated deficit (net public debt)</b>	<b>549,526</b>	<b>538,835</b>	<b>-10,691</b>

Note: Assumes fiscal balance of \$15 billion for 2000-01.

## **Net financial source of \$0.9 billion for April 2001 to July 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.1 billion in the first four months of 2001-02, compared to a net source of \$1.3 billion in the same period in 2000-01.

With a budgetary surplus of \$10.7 billion, a net requirement of \$9.7 billion from non-budgetary transactions and a net requirement of \$0.1 billion from foreign exchange transactions, there was a net financial source of \$0.9 billion in the April 2001 to July 2001 period, compared to a net source of \$4.4 billion in the same period in 2000-01.

## **Net borrowings down \$10.6 billion for April 2001 to July 2001**

Although there was a net financial source of only \$0.9 billion in the first four months of 2001-02, the Government did reduce its holding of market debt by \$10.6 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of July 2001 they stood at \$3.5 billion, down \$9.7 billion from March 31, 2001.

## **Note to Readers:**

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at [www.fin.gc.ca](http://www.fin.gc.ca).



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### August 2001: budgetary surplus of \$396 million

There was a budgetary surplus of \$396 million in August 2001, down \$37 million from the revised surplus of \$433 million in August 2000.<sup>1</sup> Among the major components, on a year-over-year basis, budgetary revenues were up \$330 million, public debt charges declined \$168 million, while program spending increased \$535 million.

### April 2001 to August 2001: budgetary surplus of \$11.1 billion

The budgetary surplus was estimated at \$11.1 billion for the April 2001 to August 2001 period, virtually unchanged from the surplus of \$11.0 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000. Given the monthly profile of receipts, a surplus is expected in September 2001, although smaller than that recorded in September 2000. Thereafter, the cumulative surplus will begin to fall, in part reflecting the impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. In addition, the impact of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year.

<sup>1</sup> The budgetary balance for August 2000 was revised from the originally reported deficit of \$1.2 billion to a surplus of \$433 million. This was due to a misclassification of revenues between July 2000 and August 2000.

### August 2001: budgetary results

Budgetary revenues increased by \$330 million, or 2.5 per cent, in August 2001 on a year-over-year basis. Among the major components:

- Personal income tax revenues increased \$315 million, or 5.7 per cent, primarily reflecting timing factors, which depressed revenues reported in August 2000. This more than offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues were up \$93 million, or 4.9 per cent, primarily reflecting much lower refunds paid in August 2001 than in August 2000. As noted in previous Fiscal Monitors, the current year-over-year increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01 monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.
- Employment insurance (EI) premium revenues were slightly lower, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) more than offset the impact of the growth in the number of people employed and therefore paying premiums.





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	August		April to August	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	12,975	13,305	72,540	74,802
Program spending	-9,021	-9,556	-44,363	-47,112
Operating surplus	3,954	3,749	28,177	27,690
Public debt charges	-3,521	-3,353	-17,225	-16,603
Budgetary balance (deficit/surplus)	433	396	10,952	11,087
<b>Non-budgetary transactions</b>	1,375	457	-6,010	-9,213
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,808	853	4,942	1,874
<b>Foreign exchange transactions</b>	-2,373	-1,022	-1,105	-1,153
<b>Net financial balance</b>	-565	-169	3,837	721
<b>Net change in borrowings</b>	6,729	5,767	-6,193	-4,806
<b>Net change in cash balances</b>	6,164	5,598	-2,356	-4,085
<b>Cash balance at end of period</b>			10,604	9,097

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Numbers for August 2000 have been revised (see footnote in box on first page).

- Excise taxes and duties were down \$178 million, or 5.5 per cent. Goods and services tax (GST) revenues were down \$157 million, solely attributable to higher refunds and rebates. Customs import duties were down \$182 million, reflecting the timing of receipts. Sales and excise taxes were up \$161 million, attributable to higher receipts from both energy and tobacco excise taxes and duties, the latter reflecting the increase in tobacco excise taxes, which became effective April 6, 2001.
- Non-tax revenues were up marginally.

The year-over-year increase in program spending of \$535 million, or 5.9 per cent, primarily reflected strong increases in transfers to persons and other levels of government, dampened by lower direct program spending

- Major transfers to persons were up \$320 million, or 11.6 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries.

- Major transfers to other levels of government were up \$390 million, or 20.6 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was down \$175 million, or 4.0 per cent, as declines in payments to Crown corporations and operating and capital expenditures more than offset higher subsidies and other transfers. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, were down \$168 million, or 4.8 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Table 2

## Budgetary revenues

	August		Change	April to August		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,543	5,858	5.7	34,862	35,075	0.6
Corporate income tax	1,879	1,972	4.9	9,754	10,831	11.0
Other income tax revenue	166	258	55.4	1,275	1,462	14.7
Total income tax	7,588	8,088	6.6	45,891	47,368	3.2
<b>Employment insurance premium revenues</b>	1,520	1,492	-1.8	8,497	8,473	-0.3
<b>Excise taxes and duties</b>						
Goods and services tax	2,062	1,905	-7.6	10,295	10,374	0.8
Customs import duties	463	281	-39.3	1,119	1,204	7.6
Sales and excise taxes	703	864	22.9	3,443	3,823	11.0
Total excise taxes and duties	3,228	3,050	-5.5	14,857	15,401	3.7
<b>Total tax revenues</b>	12,336	12,630	2.4	69,245	71,242	2.9
<b>Non-tax revenues</b>	639	675	5.6	3,295	3,560	8.0
<b>Total budgetary revenues</b>	12,975	13,305	2.5	72,540	74,802	3.1

## April 2001 to August 2001: budgetary results

Over the first five months of fiscal year 2001-02, the budgetary surplus was estimated at \$11.1 billion, up \$135 million from the surplus reported in the same period of 2000-01. Budgetary revenues were up \$2.3 billion, or 3.1 per cent, while public debt charges declined by \$622 million, or 3.6 per cent. These positive developments on the budgetary balance were largely offset by higher program spending, up \$2.7 billion, or 6.2 per cent.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally higher, up \$213 million, or 0.6 per cent. This increase was entirely attributable to higher final tax payments, received in April and May, with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains. However, this one-time revenue gain was largely offset by the impact of the tax reduction

measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. These included the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit.

- Corporate income tax revenues were up \$1.1 billion, or 11.0 per cent. In contrast, corporate profits are down on a year-over-year basis, which suggests that current collections reflect the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.
- EI premium revenues were marginally lower, as the decline in premium rates more than offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.

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Table 3

## Budgetary expenditures

	August			April to August		
	2000	2001	Change	2000-01	2001-02	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,884	2,074	10.1	9,833	10,380	5.6
Employment insurance benefits	874	1,004	14.9	4,385	4,929	12.4
Total	2,758	3,078	11.6	14,218	15,309	7.7
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	5,625	7,208	28.1
Fiscal transfers	978	1,045	6.9	4,839	5,190	7.3
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,028	-1,000	-2.7
Total	1,897	2,287	20.6	9,436	11,398	20.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	93	22	-76.3	147	445	202.7
Foreign Affairs	180	23	-87.2	526	525	-0.2
Health	65	76	16.9	418	470	12.4
Human Resources Development	15	111	640.0	426	473	11.0
Indian and Northern Development	282	284	0.7	2,025	1,780	-12.1
Industry and Regional Development	150	166	10.7	515	595	15.5
Veterans Affairs	120	127	5.8	598	620	3.7
Other	72	348	383.3	958	918	-4.2
Total	977	1,157	18.4	5,613	5,826	3.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	79	85	7.6	450	485	7.8
Canada Mortgage and Housing Corporation	150	158	5.3	770	790	2.6
Other	141	116	-17.7	617	626	1.5
Total	370	359	-3.0	1,837	1,901	3.5
Operating and capital expenditures						
Defence	921	769	-16.5	3,899	3,996	2.5
All other departmental expenditures	2,098	1,906	-9.2	9,360	8,682	-7.2
Total	3,019	2,675	-11.4	13,259	12,678	-4.4
Total direct program spending	4,366	4,191	-4.0	20,709	20,405	-1.5
<b>Total program expenditures</b>	9,021	9,556	5.9	44,363	47,112	6.2
<b>Public debt charges</b>	3,521	3,353	-4.8	17,225	16,603	-3.6
<b>Total budgetary expenditures</b>	12,542	12,909	2.9	61,588	63,715	3.5
Memorandum item:						
Total transfers	5,632	6,522	15.8	29,267	32,533	11.2



- Excise taxes and duties increased by \$544 million, or 3.7 per cent. GST revenues were up 0.8 per cent, somewhat less than the underlying increase in consumer expenditures, due to faster processing of refunds and rebates compared to the same period last year. Customs import duties were up 7.6 per cent, while sales and excise taxes were up 11.0 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 8.0 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 7.7 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 20.8 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 1.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

The year-over-year decline in public debt charges of \$622 million reflected the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

## **Financial source of \$1.9 billion (excluding foreign exchange transactions) for April 2001 to August 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.2 billion in the first five months of 2001-02, compared to a net requirement of \$6.0 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$11.1 billion and a net requirement of \$9.2 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.9 billion in the April 2001 to August 2001 period, compared to a source of \$4.9 billion in the same period last year.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	August		April to August	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	433	396	10,952	11,087
<b>Loans, investments and advances</b>				
Crown corporations	23	31	106	248
Other	-21	15	141	22
Total	2	46	247	270
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	224	-334	-666	-1,196
Superannuation accounts	459	-22	1,474	-466
Other	1	-15	-215	39
Total	684	-371	593	-1,623
<b>Other transactions</b>	689	782	-6,850	-7,860
<b>Total non-budgetary transactions</b>	1,375	457	-6,010	-9,213
<b>Financial requirements/source</b> (excluding foreign exchange transactions)	1,808	853	4,942	1,874
<b>Foreign exchange transactions</b>	-2,373	-1,022	-1,105	-1,153
<b>Net financial balance</b>	-565	-169	3,837	721

Table 5

## Net financial balance and net borrowings

	August		April to August	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Net financial balance</b>	-565	-169	3,837	721
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	4,800	4,350	10,951	2,709
Canada Savings Bonds	-138	-75	-692	-311
Treasury bills	2,900	1,700	-13,850	-4,400
Other	-467	-1	483	-6
Total	7,095	5,974	-3,108	-2,008
Payable in foreign currencies				
Marketable bonds	0	0	-2,174	-1,576
Notes and loans				-41
Canada bills	-366	-207	-886	-1,008
Canada notes		0		-173
Total	-366	-207	-3,060	-2,798
<b>Net change in borrowings</b>	6,729	5,767	-6,168	-4,806
<b>Change in cash balance</b>	6,164	5,598	-2,331	-4,085

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001 <sup>1</sup>	August 31, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	44,421	777
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,720	-465
Canada Pension Plan (net of securities)	6,391	5,195	-1,196
Other pension and other accounts	7,253	7,292	39
Total pension and other accounts	142,829	141,207	-1,622
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	297,682	2,709
Treasury bills	88,700	84,300	-4,400
Canada Savings Bonds	26,099	25,789	-310
Other	3,473	3,468	-5
Subtotal	413,245	411,239	-2,006
Payable in foreign currencies	33,158	30,359	-2,799
Total unmaturred debt	446,403	441,598	-4,805
Total interest-bearing debt	589,232	582,805	-6,427
Total liabilities	632,876	627,226	-5,650
<b>Assets</b>			
Cash and accounts receivable	19,186	23,740	4,554
Foreign exchange accounts	50,270	51,423	1,153
Loans, investments and advances (net of allowances)	16,042	15,772	-270
Total assets	85,498	90,935	5,437
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>536,291</b>	<b>-11,087</b>

<sup>1</sup> Figures for 2000-01 were revised to reflect final results for the year as published in *Public Accounts of Canada – 2001*.



## **Net financial source of \$0.7 billion for April 2001 to August 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$1.2 billion in the first five months of 2001-02, compared to a net requirement of \$1.1 billion in the same period in 2000-01.

With a budgetary surplus of \$11.1 billion, a net requirement of \$9.2 billion from non-budgetary transactions and a net requirement of \$1.2 billion from foreign exchange transactions, there was a net financial source of \$0.7 billion in the April 2001 to August 2001 period, compared to a net source of \$3.8 billion in the same period in 2000-01.

## **Net borrowings down \$4.8 billion for April 2001 to August 2001**

Although there was a net financial source of only \$0.7 billion in the first five months of 2001-02, the Government did reduce its holding of market debt by \$4.8 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of August 2001 they stood at \$9.1 billion, down \$4.1 billion from March 31, 2001.

## **Note to Readers:**

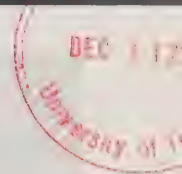
The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at [www.fin.gc.ca](http://www.fin.gc.ca).



# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### September 2001: budgetary surplus of \$2.5 billion

There was a budgetary surplus of \$2.5 billion in September 2001, down \$1.3 billion from the revised surplus of \$3.8 billion in September 2000. Since 1996-97 large surpluses have been recorded in the month of September, primarily reflecting the inclusion of quarterly tax instalment payments. On a year-over-year basis budgetary revenues declined \$0.8 billion while program spending increased \$0.8 billion. Dampening the impact of these factors was a \$0.3-billion decline in public debt charges.

### April 2001 to September 2001: budgetary surplus of \$13.6 billion

The budgetary surplus was estimated at \$13.6 billion for the April 2001 to September 2001 period, down \$1.2 billion from the surplus of \$14.7 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000, thereby overstating the underlying surplus for 2001-02.

As noted in *The Fiscal Monitor* for August 2001, a surplus was expected in September 2001, although smaller than that recorded in September 2000. In future months the cumulative surplus will fall. This reflects, in part, the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. The effect of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year.

### September 2001: budgetary results

Budgetary revenues declined \$0.8 billion, or 5.2 per cent, on a year-over-year basis. All of the major components were lower.

- Personal income tax revenues declined \$0.2 billion, or 2.8 per cent, primarily reflecting the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues declined \$0.1 billion, or 3.4 per cent, primarily reflecting higher refunds paid in September 2001 than in September 2000.
- Employment insurance (EI) premium revenues declined \$0.1 billion, or 6.6 per cent, reflecting both prior-year adjustments and the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000), which more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties declined \$0.3 billion, or 10.7 per cent. This decline was entirely the result of lower goods and services tax (GST) revenues (\$0.4 billion), attributable to higher refunds and rebates and lower GST collected on imported goods and services.
- Non-tax revenues declined \$0.2 billion, or 19.9 per cent, largely reflecting the timing of receipts and lower interest earnings on bank balances.

The year-over-year increase in program spending of \$0.8 billion, or 9.0 per cent, primarily reflected strong increases in transfers to persons and other levels of government.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	September		April to September	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,664	14,852	88,204	89,653
Program spending	-8,412	-9,168	-52,773	-56,278
Operating surplus	7,252	5,684	35,431	33,375
Public debt charges	-3,472	-3,198	-20,697	-19,801
Budgetary balance (deficit/surplus)	3,780	2,486	14,734	13,574
<b>Non-budgetary transactions</b>	-152	-192	-6,162	-9,399
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,628	2,294	8,572	4,175
<b>Foreign exchange transactions</b>	485	1,652	-620	499
<b>Net financial balance</b>	4,113	3,946	7,952	4,674
<b>Net change in borrowings</b>	-12,116	-9,449	-18,309	-14,254
<b>Net change in cash balances</b>	-8,003	-5,503	-10,357	-9,580
<b>Cash balance at end of period</b>			2,602	3,595

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Major transfers to persons were up \$0.3 billion, or 10.6 per cent, primarily reflecting higher EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries. Elderly benefits were virtually unchanged due to the timing of payments between August and September.
- Major transfers to other levels of government were up \$0.4 billion, or 19.7 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was up slightly, as a decline in operating and capital

expenditures was more than offset by higher payments in the other components. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over year basis, were down \$0.3 billion, or 7.9 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

### April 2001 to September 2001: budgetary results

Over the first six months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.6 billion, down \$1.2 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were up \$1.4 billion, or 1.6 per cent, while public debt charges declined by \$0.9 billion, or 4.3 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$3.5 billion, or 6.6 per cent.



Table 2

## Budgetary revenues

	September		Change	April to September		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	8,580	8,342	-2.8	43,443	43,417	-0.1
Corporate income tax	1,595	1,541	-3.4	11,349	12,372	9.0
Other income tax revenue	164	226	37.8	1,439	1,688	17.3
Total income tax	10,339	10,109	-2.2	56,231	57,477	2.2
<b>Employment insurance premium revenues</b>	1,437	1,342	-6.6	9,934	9,815	-1.2
<b>Excise taxes and duties</b>						
Goods and services tax	2,103	1,725	-18.0	12,398	12,098	-2.4
Customs import duties	220	243	10.5	1,339	1,447	8.1
Sales and excise taxes	798	819	2.6	4,240	4,642	9.5
Total excise taxes and duties	3,121	2,787	-10.7	17,977	18,187	1.2
<b>Total tax revenues</b>	14,897	14,238	-4.4	84,142	85,479	1.6
<b>Non-tax revenues</b>	767	614	-19.9	4,062	4,174	2.8
<b>Total budgetary revenues</b>	15,664	14,852	-5.2	88,204	89,653	1.6

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections declined marginally, as the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* offset higher final tax payments, received in April and May, with respect to the 2000 taxation year.
- Corporate income tax revenues were up \$1.0 billion, or 9.0 per cent. As noted in previous Fiscal Monitors, this current year-over-year increase primarily reflects the tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01 monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01.

With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading, as they do not yet reflect the decline in operating profits of Canadian corporations in the first half of 2001.

- EI premium revenues were down 1.2 per cent, as the decline in premium rates more than offset the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased \$0.2 billion, or 1.2 per cent. GST revenues were down 2.4 per cent, primarily attributable to higher refunds and rebates and lower collections on imports. Customs import duties were up 8.1 per cent, while sales and excise taxes were up 9.5 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 2.8 per cent.

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Table 3

## Budgetary expenditures

	September		Change	April to September		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,120	2,121	0.0	11,953	12,501	4.6
Employment insurance benefits	671	967	44.1	5,056	5,897	16.6
Total	2,791	3,088	10.6	17,009	18,398	8.2
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	6,750	8,650	28.1
Fiscal transfers	993	1,046	5.3	5,831	6,236	6.9
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,233	-1,200	-2.7
Total	1,912	2,288	19.7	11,348	13,686	20.6
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	109	19	-82.6	255	463	81.6
Foreign Affairs	40	108	170.0	566	633	11.8
Health	148	121	-18.2	566	591	4.4
Human Resources Development	33	152	360.6	459	625	36.2
Indian and Northern Development	444	348	-21.6	2,470	2,129	-13.8
Industry and Regional Development	91	12	-86.8	606	607	0.2
Veterans Affairs	121	127	5.0	718	747	4.0
Other	76	234	207.9	1,032	1,148	11.2
Total	1,062	1,121	5.6	6,672	6,943	4.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	80	23.1	515	565	9.7
Canada Mortgage and Housing Corporation	150	158	5.3	920	948	3.0
Other	90	130	44.4	708	756	6.8
Total	305	368	20.7	2,143	2,269	5.9
Operating and capital expenditures						
Defence	874	842	-3.7	4,773	4,838	1.4
All other departmental expenditures	1,468	1,461	-0.5	10,828	10,144	-6.3
Total	2,342	2,303	-1.7	15,601	14,982	-4.0
Total direct program spending	3,709	3,792	2.2	24,416	24,194	-0.9
<b>Total program expenditures</b>	8,412	9,168	9.0	52,773	56,278	6.6
<b>Public debt charges</b>	3,472	3,198	-7.9	20,697	19,801	-4.3
<b>Total budgetary expenditures</b>	11,884	12,366	4.1	73,470	76,079	3.6
Memorandum item:						
Total transfers	5,765	6,497	12.7	35,029	39,027	11.4

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 8.2 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 20.6 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 0.9 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$0.9 billion reflected the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

## **Financial source of \$4.2 billion (excluding foreign exchange transactions) for April 2001 to September 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.4 billion in the first six months of 2001-02, compared to a net requirement of \$6.2 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$13.6 billion and a net requirement of \$9.4 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$4.2 billion in the April 2001 to September 2001 period, compared to a source of \$8.6 billion in the same period last year.

## **Net financial source of \$4.7 billion for April 2001 to September 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.5 billion in the first six months of 2001-02, compared to a net requirement of \$0.6 billion in the same period in 2000-01.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	September		April to September	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	3,780	2,486	14,734	13,574
<b>Loans, investments and advances</b>				
Crown corporations	100	106	206	355
Other	42	-528	183	-507
Total	142	-422	389	-152
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	128	578	-538	-618
Superannuation accounts	-14	-185	1,460	-652
Other	150	-6	-65	34
Total	264	387	857	-1,236
<b>Other transactions</b>	-558	-157	-7,408	-8,011
<b>Total non-budgetary transactions</b>	-152	-192	-6,162	-9,399
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,628	2,294	8,572	4,175
<b>Foreign exchange transactions</b>	485	1,652	-620	499
<b>Net financial balance</b>	4,113	3,946	7,952	4,674

Table 5

## Net financial balance and net borrowings

	September		April to September	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Net financial balance</b>	4,113	3,946	7,952	4,674
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-4,933	-8,693	6,018	-5,983
Canada Savings Bonds	-98	-38	-790	-349
Treasury bills	-6,200	400	-20,050	-4,000
Other	-376	-4	82	-9
Total	-11,607	-8,335	-14,740	-10,341
Payable in foreign currencies				
Marketable bonds	0	0	-2,174	-1,576
Notes and loans				-41
Canada bills	-509	-1,114	-1,395	-2,123
Canada notes		0		-173
Total	-509	-1,114	-3,569	-3,913
<b>Net change in borrowings</b>	-12,116	-9,449	-18,309	-14,254
<b>Change in cash balance</b>	-8,003	-5,503	-10,357	-9,580

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	September 30, 2001	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	43,481	-163
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,533	-652
Canada Pension Plan (net of securities)	6,391	5,773	-618
Other pension and other accounts	7,253	7,287	34
Total pension and other accounts	142,829	141,593	-1,236
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	288,990	-5,983
Treasury bills	88,700	84,700	-4,000
Canada Savings Bonds	26,099	25,750	-349
Other	3,473	3,464	-9
Subtotal	413,245	402,904	-10,341
Payable in foreign currencies	33,158	29,245	-3,913
Total unmaturred debt	446,403	432,149	-14,254
Total interest-bearing debt	589,232	573,742	-15,490
Total liabilities	632,876	617,223	-15,654
<b>Assets</b>			
Cash and accounts receivable	19,186	17,454	-1,733
Foreign exchange accounts	50,270	49,771	-499
Loans, investments and advances (net of allowances)	16,042	16,194	152
Total assets	85,498	83,419	-2,080
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>533,804</b>	<b>-13,574</b>

With a budgetary surplus of \$13.6 billion, a net requirement of \$9.4 billion from non-budgetary transactions and a net source of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$4.7 billion in the April 2001 to September 2001 period, compared to a net source of \$8.0 billion in the same period in 2000-01.

## **Net borrowings down \$14.3 billion for April 2001 to September 2001**

Although there was a net financial source of only \$4.7 billion in the first six months of 2001-02, the Government did reduce its holding of market debt by \$14.3 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of September 2001 they stood at \$3.6 billion, down \$9.6 billion from March 31, 2001.

### **Note to Readers:**

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital

acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at [www.fin.gc.ca](http://www.fin.gc.ca).





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### October 2001: budgetary deficit of \$0.3 billion

There was a budgetary deficit of \$0.3 billion in October 2001 compared to a deficit of \$0.1 billion in October 2000. However, the October 2000 estimate includes the one-time \$1-billion transfer to the Medical Equipment Fund, which resulted in the deficit that was recorded in that month. On a year-over-year basis, budgetary revenues increased \$0.3 billion while program spending increased \$0.6 billion. Public debt charges declined by \$0.1 billion.

### April 2001 to October 2001: budgetary surplus of \$13.2 billion

The budgetary surplus was estimated at \$13.2 billion for the April 2001 to October 2001 period, down \$1.4 billion from the surplus of \$14.6 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000, thereby overstating the underlying surplus for 2001-02.

In future months the cumulative surplus will continue to fall, in part reflecting the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and proposed in the 2001 budget. In addition, the effect of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year. As noted in the 2001 budget, any surplus reported at the end of 2001-02 will be allocated to the Africa Fund and to the Strategic Infrastructure Foundation.

### October 2001: budgetary results

Budgetary revenues increased \$0.3 billion, or 2.2 per cent, on a year-over-year basis. Higher personal income tax revenues and excise taxes and duties more than offset declines in the other major revenue components.

- Personal income tax revenues increased \$0.4 billion, or 7.5 per cent. All of this increase is attributable to prior-year adjustments to the Canada Pension Plan (CPP) and employment insurance (EI) accounts, which dampened the October 2000 results. Gross remittances received include not only federal personal income tax liabilities but also provincial tax liabilities (as set out under the tax collection agreements with participating provinces) and employee

and employer contributions to the CPP and EI accounts. On a monthly basis deductions for these liabilities are based on estimates, with adjustments made when data become available from the Canada Customs and Revenue Agency. Based on taxation data for 1999, transfers of \$1.4 billion were made from personal income tax revenues to the CPP and EI accounts, thereby dampening personal income tax revenues in October 2000. No adjustments were made to the October 2001 results. Excluding the impact of these adjustments from the October 2000 results, personal income tax revenues would have been lower this year. This reflects the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*,



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	October		April to October	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,324	13,620	101,528	103,272
Program spending	-10,063	-10,675	-62,837	-66,954
Operating surplus	3,261	2,945	38,691	36,318
Public debt charges	-3,406	-3,287	-24,103	-23,088
Budgetary balance (deficit/surplus)	-145	-342	14,588	13,230
<b>Non-budgetary transactions</b>	948	-1,530	-5,211	-10,930
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	803	-1,872	9,377	2,300
<b>Foreign exchange transactions</b>	692	-1,010	72	-512
<b>Net financial balance</b>	1,495	-2,882	9,449	1,788
<b>Net change in borrowings</b>	3,658	4,546	-14,652	-9,708
<b>Net change in cash balances</b>	5,153	1,664	-5,203	-7,920
<b>Cash balance at end of period</b>			7,755	5,259

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

as well as enrichments to the Canada Child Tax Benefit announced in previous budgets. In addition, the slowdown in economic growth is restraining the overall growth in personal income tax revenues.

- Corporate income tax revenues declined \$0.4 billion, or 21.3 per cent, reflecting both higher refunds and a decline in gross collections.
- EI premium revenues declined \$0.4 billion, or 26.0 per cent, primarily reflecting the impact of the prior-year adjustments described above, which increased revenues in October 2000. In addition, premium rates are lower (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties increased \$0.8 billion, or 23.1 per cent. Most of this increase was attributable to higher goods and services tax (GST) revenues, primarily reflecting the timing of receipts (September 2001 revenues were \$0.3 billion lower than in September 2000).

- Non-tax revenues declined 5.1 per cent, largely reflecting the timing of receipts and lower interest earnings on bank balances.

The year-over-year increase in program spending of \$0.6 billion, or 6.1 per cent, primarily reflects strong increases in transfers to persons and in direct program spending.

- Major transfers to persons were up \$0.4 billion, or 15.3 per cent, primarily reflecting higher EI benefit payments, which were up 43.5 per cent. The increase in EI benefit payments reflects the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries. Elderly benefits increased 4.9 per cent.
- Major transfers to other levels of government were down \$0.6 billion, or 21.0 per cent. More than all of this decline was attributable to the payment of \$1 billion in trust to the provinces and territories for new medical equipment as part of the September 2000 Health Accord.

Table 2

## Budgetary revenues

	October		Change	April to October		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,397	5,800	7.5	48,840	49,218	0.8
Corporate income tax	1,853	1,459	-21.3	13,201	13,832	4.8
Other income tax revenue	381	378	-0.8	1,820	2,065	13.5
Total income tax	7,631	7,637	0.1	63,861	65,115	2.0
<b>Employment insurance premium revenues</b>	1,614	1,194	-26.0	11,548	11,009	-4.7
<b>Excise taxes and duties</b>						
Goods and services tax	2,325	3,172	36.4	14,723	15,269	3.7
Customs import duties	230	332	44.3	1,569	1,777	13.3
Sales and excise taxes	706	509	-27.9	4,946	5,150	4.1
Total excise taxes and duties	3,261	4,013	23.1	21,238	22,196	4.5
<b>Total tax revenues</b>	12,506	12,844	2.7	96,647	98,320	1.7
<b>Non-tax revenues</b>	818	776	-5.1	4,881	4,952	1.5
<b>Total budgetary revenues</b>	13,324	13,620	2.2	101,528	103,272	1.7

Excluding the impact of this special payment, transfers increased by \$0.4 billion, or 20.7 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.8 billion, or 18.1 per cent. All major components were higher, except payments to Crown corporations. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over year basis, were down \$0.1 billion, or 3.5 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

## April 2001 to October 2001: budgetary results

Over the first seven months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.2 billion, down \$1.4 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were up \$1.7 billion, or 1.7 per cent, while public debt charges declined by \$1.0 billion, or 4.2 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$4.1 billion, or 6.6 per cent.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections increased marginally, as higher final tax payments received in April and May with respect to the 2000 taxation year, as well as prior-year adjustments affecting the October 2000 results, offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	October			April to October		
	2000	2001	Change	2000-01	2001-02	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,037	2,137	4.9	13,990	14,638	4.6
Employment insurance benefits	750	1,076	43.5	5,806	6,973	20.1
Total	2,787	3,213	15.3	19,796	21,611	9.2
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	7,875	10,092	28.2
Fiscal transfers	976	1,046	7.2	6,807	7,281	7.0
Medical Equipment Fund	1,000			1,000		
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,439	-1,400	-2.7
Total	2,895	2,288	-21.0	14,243	15,973	12.1
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	7	40	471.4	263	504	91.6
Foreign Affairs	212	245	15.6	778	879	13.0
Health	67	107	59.7	633	698	10.3
Human Resources Development	120	139	15.8	579	764	32.0
Indian and Northern Development	176	313	77.8	2,646	2,442	-7.7
Industry and Regional Development	125	201	60.8	732	808	10.4
Veterans Affairs	122	121	-0.8	841	868	3.2
Other	57	233	308.8	1,087	1,388	27.7
Total	886	1,399	57.9	7,559	8,351	10.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	100	83	-17.0	615	648	5.4
Canada Mortgage and Housing Corporation	150	158	5.3	1,070	1,106	3.4
Other	167	170	1.8	874	927	6.1
Total	417	411	-1.4	2,559	2,681	4.8
Operating and capital expenditures						
Defence	989	1,037	4.9	5,762	5,876	2.0
All other departmental expenditures	2,089	2,327	11.4	12,918	12,462	-3.5
Total	3,078	3,364	9.3	18,680	18,338	-1.8
Total direct program spending	4,381	5,174	18.1	28,798	29,370	2.0
<b>Total program expenditures</b>	10,063	10,675	6.1	62,837	66,954	6.6
<b>Public debt charges</b>	3,406	3,287	-3.5	24,103	23,088	-4.2
<b>Total budgetary expenditures</b>	13,469	13,962	3.7	86,940	90,042	3.6
Memorandum item:						
Total transfers	6,568	6,900	5.1	41,598	45,935	10.4

- Corporate income tax revenues were up \$0.6 billion, or 4.8 per cent. The increase in year-to-date revenues has dropped significantly in recent months as corporations are revising their instalment payments to reflect lower corporate profits in 2001.
- EI premium revenues were down \$0.5 billion, or 4.7 per cent, as the impact of prior-year adjustments affecting the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.0 billion, or 4.5 per cent. GST revenues were up 3.7 per cent, customs import duties were up 13.3 per cent and sales and excise taxes were up 4.1 per cent.
- Non-tax revenues were up 1.5 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 9.2 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 12.1 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces. The year-to-date results are also affected by the special payment of \$1 billion to the Medical Equipment Fund in October 2000.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government,

increased 2.0 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.0 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

## **Financial source of \$2.3 billion (excluding foreign exchange transactions) for April 2001 to October 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.9 billion in the first seven months of 2001-02, compared to a net requirement of \$5.2 billion in the same period in 2000-01. Traditionally, there are large requirements in the first part of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results. In addition, transfers to the Canada Pension Plan Account and Public Sector Pension Investment Board resulted in higher requirements this year than in the same period last year.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	October		April to October	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-145	-342	14,588	13,230
<b>Loans, investments and advances</b>				
Crown corporations	50	24	256	379
Other	-961	-423	-778	-930
Total	-911	-399	-522	-551
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	871	-745	333	-1,363
Superannuation accounts	175	-154	1,636	-807
Other	9	-17	-56	16
Total	1,055	-916	1,913	-2,154
<b>Other transactions</b>	804	-215	-6,602	-8,225
<b>Total non-budgetary transactions</b>	948	-1,530	-5,211	-10,930
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	803	-1,872	9,377	2,300
<b>Foreign exchange transactions</b>	692	-1,010	72	-512
<b>Net financial balance</b>	1,495	-2,882	9,449	1,788

Table 5

## Net financial balance and net borrowings

	October		April to October	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Net financial balance</b>	1,495	-2,882	9,449	1,788
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	3,931	1,435	9,949	-4,548
Canada Savings Bonds	-191	120	-981	-469
Treasury bills	-300	2,800	-20,350	-1,200
Other	109	0	191	-9
Total	3,549	4,355	-11,191	-6,226
Payable in foreign currencies				
Marketable bonds	-28	0	-2,202	-1,576
Notes and loans				-41
Canada bills	173	431	-1,223	-1,692
Canada notes	-36	0	-36	-173
Total	109	431	-3,461	-3,482
<b>Net change in borrowings</b>	3,658	4,786	-14,652	-9,708
<b>Change in cash balance</b>	5,153	1,904	-5,203	-7,920



Table 6

**Condensed statement of assets and liabilities**

	March 31, 2001	October 31, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	32,130	-11,514
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,378	-807
Canada Pension Plan (net of securities)	6,391	5,028	-1,363
Other pension and other accounts	7,253	7,269	16
Total pension and other accounts	142,829	140,675	-2,154
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	290,425	-4,548
Treasury bills	88,700	87,500	-1,200
Canada Savings Bonds	26,099	25,630	-469
Other	3,473	3,464	-9
Subtotal	413,245	407,019	-6,226
Payable in foreign currencies	33,158	29,676	-3,482
Total unmaturred debt	446,403	436,695	-9,708
Total interest-bearing debt	589,232	577,370	-11,862
Total liabilities	632,876	609,499	-23,377
<b>Assets</b>			
Cash and accounts receivable	19,186	7,977	-11,210
Foreign exchange accounts	50,270	50,782	512
Loans, investments and advances (net of allowances)	16,042	16,593	551
Total assets	85,498	75,351	-10,147
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>534,148</b>	<b>-13,230</b>

As a result, with a budgetary surplus of \$13.2 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$2.3 billion in the April 2001 to October 2001 period, compared to a source of \$9.4 billion in the same period last year.

## **Net financial source of \$1.8 billion for April 2001 to October 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.5 billion in the first seven months of 2001-02, compared to a net source of \$0.1 billion in the same period in 2000-01.

With a budgetary surplus of \$13.2 billion, a net requirement of \$10.9 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$1.8 billion in the April 2001 to October 2001 period, compared to a net source of \$9.4 billion in the same period in 2000-01.

## **Net borrowings down \$9.7 billion for April 2001 to October 2001**

Although there was a net financial source of only \$1.8 billion in the first seven months of 2001-02, the Government did reduce its holding of market debt by \$9.7 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of October 2001 they stood at \$5.3 billion, down \$7.9 billion from March 31, 2001.

## **Note to Readers:**

In the 2000 budget the Government set a target date of 2001-02 for implementation of full accrual accounting. However, it is government convention that the audited financial statements report be presented on the same basis of accounting as in the budget. Given the timing of the 2001 budget and the fact that important components of the information required to implement full accrual accounting have not yet been verified and audited, it is not possible to move to a full accrual basis of accounting at this time. Therefore, the Government has decided to delay the implementation of full accrual accounting for at least one year.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2001: budgetary deficit of \$1.2 billion

There was a budgetary deficit of \$1.2 billion in November 2001, compared to a surplus of \$0.9 billion in November 2000. Budgetary revenues declined by \$1.5 billion on a year-over-year basis, while program spending was \$0.8 billion higher. Public debt charges declined by \$0.1 billion.

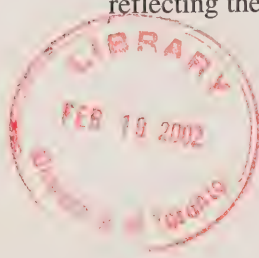
### April 2001 to November 2001: budgetary surplus of \$12.0 billion

The budgetary surplus was estimated at \$12.0 billion for the April 2001 to November 2001 period, down \$3.5 billion from the surplus of \$15.5 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before the December 2001 budget. In addition, the effect of the slowing economy on most of the major revenue components and employment insurance (EI) benefits is also adversely affecting the fiscal results. These results are consistent with the expected results for the year as a whole as outlined in the December 2001 budget. As noted in the budget, any surplus reported at the end of 2001-02 will be allocated to the Africa Fund and the Strategic Infrastructure Foundation.

### November 2001: budgetary results

Budgetary revenues declined \$1.5 billion, or 10.9 per cent, on a year-over-year basis. All major revenue components, except other income tax revenues, were lower.

- Personal income tax revenues were marginally lower. This reflects the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets. In addition, the slowdown in economic growth is restraining the overall growth in personal income tax revenues.
- Corporate income tax revenues declined \$0.6 billion, or 33.3 per cent, primarily attributable to higher refunds.
- EI premium revenues declined 3.4 per cent, primarily reflecting the impact of lower premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties declined \$0.7 billion, or 18.5 per cent. Throughout most of the current fiscal year, this component has been affected by the timing of receipts and processing of refunds. For example, in October 2001, revenues were up \$0.8 billion on a year-over-year basis, accounting for part of the weakness in the current month.
- Non-tax revenues declined 22.4 per cent, largely reflecting the timing of receipts.





# The Fiscal Monitor

Table 1

## Summary statement of transactions

	November		April to November	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,780	12,277	115,308	115,548
Program spending	-9,401	-10,201	-72,236	-77,158
Operating surplus	4,379	2,076	43,072	38,390
Public debt charges	-3,436	-3,319	-27,539	-26,406
Budgetary balance (deficit/surplus)	943	-1,243	15,533	11,984
<b>Non-budgetary transactions</b>	1,145	6	-4,068	-10,923
<b>Financial requirements/source</b> (excluding foreign exchange transactions)	2,088	-1,237	11,465	1,061
<b>Foreign exchange transactions</b>	-2,004	10	-1,933	-502
<b>Net financial balance</b>	84	-1,227	9,532	559
<b>Net change in borrowings</b>	4,906	9,568	-9,746	-141
<b>Net change in cash balances</b>	4,990	8,341	-214	418
<b>Cash balance at end of period</b>			7,755	5,259

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Program spending increased by \$0.8 billion, or 8.5 per cent, on a year-over-year basis. Among the major components:

- Major transfers to persons were up \$0.2 billion, or 8.4 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$0.3 billion, or 15.7 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.2 billion, or 5.5 per cent. All major components were higher except all other departmental operating and capital expenditures. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over year basis, were down \$0.1 billion, or 3.4 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Table 2

## Budgetary revenues

	November		Change	April to November		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,150	6,127	-0.4	54,990	55,345	0.6
Corporate income tax	1,879	1,253	-33.3	15,080	15,084	0.0
Other income tax revenue	244	276	13.1	2,064	2,342	13.5
Total income tax	8,273	7,656	-7.5	72,134	72,771	0.9
<b>Employment insurance premium revenues</b>	1,073	1,036	-3.4	12,622	12,046	-4.6
<b>Excise taxes and duties</b>						
Goods and services tax	2,619	2,106	-19.6	17,340	17,375	0.2
Customs import duties	303	174	-42.6	1,872	1,951	4.2
Sales and excise taxes	744	709	-4.7	5,691	5,861	3.0
Total excise taxes and duties	3,666	2,989	-18.5	24,903	25,187	1.1
<b>Total tax revenues</b>	13,012	11,681	-10.2	109,659	110,004	0.3
<b>Non-tax revenues</b>	768	596	-22.4	5,649	5,544	-1.9
<b>Total budgetary revenues</b>	13,780	12,277	-10.9	115,308	115,548	0.2

## April 2001 to November 2001: budgetary results

Over the first eight months of fiscal year 2001-02, the budgetary surplus was estimated at \$12.0 billion, down \$3.5 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were virtually unchanged from last year, while public debt charges declined by \$1.1 billion, or 4.1 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$4.9 billion, or 6.8 per cent.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections increased marginally, as higher final tax payments received in April and May with respect to the 2000 taxation year, as well as prior-year adjustments affecting the October 2000 results, offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.
- Corporate income tax revenues were virtually unchanged, as higher refunds offset increased gross receipts.

- EI premium revenues were down 4.6 per cent, as the impact of prior-year adjustments, which affected the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$0.3 billion, or 1.1 per cent. Goods and services tax revenues were up marginally, customs import duties were up 4.2 per cent, while sales and excise taxes were up 3.0 per cent.
- Non-tax revenues were down 1.9 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 9.1 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	November		Change	April to November		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,051	2,137	4.2	16,040	16,775	4.6
Employment insurance benefits	910	1,073	17.9	6,716	8,046	19.8
Total	2,961	3,210	8.4	22,756	24,821	9.1
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	9,000	11,533	28.1
Fiscal transfers	1,020	1,034	1.4	7,827	8,315	6.2
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-1,644	-1,632	-0.7
Total	1,939	2,243	15.7	16,183	18,216	12.6
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	23	21	-8.7	286	525	83.6
Foreign Affairs	125	121	-3.2	904	1,000	10.6
Health	107	153	43.0	739	851	15.2
Human Resources Development	28	142	407.1	607	906	49.3
Indian and Northern Development	316	290	-8.2	2,962	2,733	-7.7
Industry and Regional Development	90	151	67.8	821	958	16.7
Veterans Affairs	117	132	12.8	958	1,000	4.4
Other	287	254	-11.5	1,376	1,642	19.3
Total	1,093	1,264	15.6	8,653	9,615	11.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	70	16.7	675	718	6.4
Canada Mortgage and Housing Corporation	150	183	22.0	1,220	1,289	5.7
Other	75	160	113.3	949	1,087	14.5
Total	285	413	44.9	2,844	3,094	8.8
Operating and capital expenditures						
Defence	1,072	1,119	4.4	6,835	6,996	2.4
All other departmental expenditures	2,051	1,952	-4.8	14,965	14,416	-3.7
Total	3,123	3,071	-1.7	21,800	21,412	-1.8
Total direct program spending	4,501	4,748	5.5	33,297	34,121	2.5
<b>Total program expenditures</b>	9,401	10,201	8.5	72,236	77,158	6.8
<b>Public debt charges</b>	3,436	3,319	-3.4	27,539	26,406	-4.1
<b>Total budgetary expenditures</b>	12,837	13,520	5.3	99,775	103,564	3.8
Memorandum item:						
Total transfers	5,993	6,717	12.1	47,592	52,652	10.6



- Major transfers to other levels of government were up 12.6 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements. The year-to-date results are also affected by the special payment of \$1 billion to the Medical Equipment Fund in October 2000.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 2.5 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.1 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

### **Financial source of \$1.1 billion (excluding foreign exchange transactions) for April 2001 to November 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.9 billion in the first eight months of 2001-02, compared to a net requirement of \$4.1 billion in the same period in 2000-01. Traditionally, there are large requirements in the first part of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results. In addition, transfers of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account resulted in higher requirements this year than in the same period last year.

As a result, with a budgetary surplus of \$12.0 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.1 billion in the April 2001 to November 2001 period, compared to a source of \$11.5 billion in the same period of 2000-01.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	November		April to November	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Budgetary balance (deficit/ surplus)</b>	943	-1,243	15,533	11,984
<b>Loans, investments and advances</b>				
Crown corporations	52	50	308	428
Other	-91	-3	-869	-931
Total	-39	47	-561	-503
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-360	-584	-28	-1,947
Superannuation accounts	71	-747	1,706	-1,552
Other	16	62	-40	78
Total	-273	-1,269	1,638	-3,421
<b>Other transactions</b>	1,457	1,228	-5,145	-6,999
<b>Total non-budgetary transactions</b>	1,145	6	-4,068	-10,923
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,088	-1,237	11,465	1,061
<b>Foreign exchange transactions</b>	-2,004	10	-1,933	-502
<b>Net financial balance</b>	84	-1,227	9,532	559

Table 5

## Net financial balance and net borrowings

	November		April to November	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Net financial balance</b>	84	-1,227	9,532	559
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	5,500	5,351	15,449	802
Canada Savings Bonds	-243	-2,043	-1,224	-2,512
Treasury bills	-400	6,700	-20,750	5,500
Other	-153	-12	38	-21
Total	4,704	9,996	-6,487	3,769
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans				-41
Canada bills	202	-428	-1,021	-2,120
Canada notes	0	0	-36	-173
Total	202	-428	-3,259	-3,910
<b>Net change in borrowings</b>	4,906	9,568	-9,746	-141
<b>Change in cash balance</b>	4,990	8,341	-214	418

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	November 30, 2001	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	35,264	-8,380
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,633	-1,552
Canada Pension Plan (net of securities)	6,391	4,444	-1,947
Other pension and other accounts	7,253	7,331	78
Total pension and other accounts	142,829	139,408	-3,421
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	295,775	802
Treasury bills	88,700	94,200	5,500
Canada Savings Bonds	26,099	23,587	-2,512
Other	3,473	3,452	-21
Subtotal	413,245	417,014	3,769
Payable in foreign currencies	33,158	29,248	-3,910
Total unmaturred debt	446,403	446,262	-141
Total interest-bearing debt	589,232	585,671	-3,561
Total liabilities	632,876	620,935	-11,941
<b>Assets</b>			
Cash and accounts receivable	19,186	18,225	-961
Foreign exchange accounts	50,270	50,772	502
Loans, investments and advances (net of allowances)	16,042	16,545	503
Total assets	85,498	85,541	44
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>535,394</b>	<b>-11,984</b>



## **Net financial source of \$0.6 billion for April 2001 to November 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.5 billion in the first eight months of 2001-02, compared to a net requirement of \$1.9 billion in the same period in 2000-01.

With a budgetary surplus of \$12.0 billion, a net requirement of \$10.9 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$0.6 billion in the April 2001 to November 2001 period, compared to a net source of \$9.5 billion in the same period in 2000-01.

## **Net borrowings down \$0.1 billion for April 2001 to November 2001**

At November 30, 2001, the Government's holdings of unmatured debt (debt issued on credit markets) were marginally lower than at March 31, 2001. However, it has reduced its liabilities to the federal government employees' pension plan and other accounts by \$3.4 billion. As a result, at November 30, 2001, interest-bearing debt was \$3.6 billion lower than at March 31, 2001. Cash balances were increased by \$0.4 billion, to stand at \$5.3 billion at November 30, 2001. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2001: budgetary surplus of \$1.5 billion

There was a budgetary surplus of \$1.5 billion in December 2001, \$1.9 billion lower than the surplus of \$3.3 billion reported in December 2000. On a year-over-year basis, budgetary revenues were \$0.6 billion lower, primarily attributable to lower corporate income tax revenues, reflecting the weakness in corporate profits. Program spending was \$1.5 billion higher, largely attributable to higher employment insurance (EI) benefits and to higher departmental operating and capital expenditures in response to the events of September 11<sup>th</sup>. Public debt charges declined by \$0.3 billion, primarily reflecting the decline in interest rates. Given the monthly pattern of budgetary revenues, a surplus was expected in December.

### April 2001 to December 2001: budgetary surplus of \$13.4 billion

The budgetary surplus was estimated at \$13.4 billion for the April 2001 to December 2001 period, down \$5.4 billion from the surplus of \$18.8 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before the December 2001 budget. In addition, the effect of the slowing economy on most of the major revenue components and EI benefits is also adversely affecting the fiscal results, compared to the same period last year. The results to date are consistent with the expected results for the year as a whole as outlined in the December 2001 budget.

### December 2001: budgetary results

Budgetary revenues declined \$0.6 billion, or 3.9 per cent, on a year-over-year basis, primarily attributable to lower corporate income tax revenues.

- Personal income tax revenues were marginally higher. The overall growth has been restrained by the slowdown in the economy, the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, and enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues declined \$0.7 billion, or 28.9 per cent, reflecting the much lower profit outcome for 2001 compared to 2000, as well as the tax rate reductions effective January 1, 2001.
- EI premium revenues declined 1.2 per cent, primarily reflecting the impact of lower premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties increased \$0.2 billion, or 9.0 per cent, recovering some of the decline reported in November. Increases were reported in all components. The increases in goods and services tax (GST) revenues and customs import duties partly reflect recoveries from delays in processing import goods associated with the events of September 11<sup>th</sup>. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excises taxes.
- Non-tax revenues declined 24.5 per cent, largely reflecting the impact of lower interest rates.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	December		April to December	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,310	15,680	131,618	131,229
Program spending	-9,515	-11,016	-81,751	-88,175
Operating surplus	6,795	4,664	49,867	43,054
Public debt charges	-3,486	-3,206	-31,024	-29,612
Budgetary balance (deficit/surplus)	3,309	1,458	18,843	13,442
<b>Non-budgetary transactions</b>	-5,620	-3,067	-9,691	-13,992
<b>Financial requirements/source</b> (excluding foreign exchange transactions)	-2,311	-1,609	9,152	-550
<b>Foreign exchange transactions</b>	609	-142	-1,323	-643
<b>Net financial balance</b>	-1,702	-1,751	7,829	-1,193
<b>Net change in borrowings</b>	-6,870	-6,858	-16,616	-6,997
<b>Net change in cash balances</b>	-8,572	-8,609	-8,787	-8,190
<b>Cash balance at end of period</b>			4,167	4,992

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Program spending increased by \$1.5 billion, or 15.8 per cent, on a year-over-year basis. Most of the increase is attributable to higher EI benefits and increased departmental operating and capital expenditures.

- Major transfers to persons were up \$0.7 billion, or 24.1 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries due to the slowdown in the economy.
- Major transfers to other levels of government were up \$0.1 billion, or 6.8 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The decline in fiscal transfers is attributable to the timing of payments.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.6 billion, or 14.5 per cent, attributable to incremental spending related to the response to the events of September 11<sup>th</sup>.

Public debt charges, on a year-over year basis, were down \$0.3 billion, or 8.0 per cent, due primarily to the decline in the average effective interest rate on the debt.

### April 2001 to December 2001: budgetary results

Over the first nine months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.4 billion, down \$5.4 billion from the surplus reported in the same period of 2000-01. Program spending was up \$6.4 billion while budgetary revenues were down \$0.4 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$1.4 billion.



Table 2

## Budgetary revenues

	December		Change	April to December		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	9,149	9,191	0.5	64,139	64,536	0.6
Corporate income tax	2,432	1,728	-28.9	17,512	16,812	-4.0
Other income tax revenue	283	311	9.9	2,348	2,653	13.0
Total income tax	11,864	11,230	-5.3	83,999	84,001	0.0
<b>Employment insurance premium revenues</b>	964	952	-1.2	13,586	12,998	-4.3
<b>Excise taxes and duties</b>						
Goods and services tax	1,773	1,815	2.4	19,115	19,190	0.4
Customs import duties	202	295	46.0	2,074	2,246	8.3
Sales and excise taxes	620	718	15.8	6,309	6,581	4.3
Total excise taxes and duties	2,595	2,828	9.0	27,498	28,017	1.9
<b>Total tax revenues</b>	15,423	15,010	-2.7	125,083	125,016	-0.1
<b>Non-tax revenues</b>	887	670	-24.5	6,535	6,213	-4.9
<b>Total budgetary revenues</b>	16,310	15,680	-3.9	131,618	131,229	-0.3

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections increased marginally, as higher final tax payments received in April and May with respect to the 2000 taxation year and the effect of prior-year adjustments affecting the October 2000 results offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.
- Corporate income tax revenues declined 4.0 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates. Large year-over-year declines are expected over the balance of the fiscal year, attributable to lower final settlement payments, reflecting the decline in corporate profits in 2001 and the December 2001 budget decision to allow small businesses to defer payments of their corporate income tax instalments for the months of January, February and March 2002.

- EI premium revenues were down 4.3 per cent, as the impact of prior-year adjustments, which affected the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$0.5 billion, or 1.9 per cent. GST revenues were up marginally, customs import duties were up 8.3 per cent, while sales and excise taxes were up 4.3 per cent.
- Non-tax revenues were down 4.9 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 10.8 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	December		Change	April to December		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,038	2,151	5.5	18,079	18,926	4.7
Employment insurance benefits	902	1,497	66.0	7,618	9,543	25.3
Total	2,940	3,648	24.1	25,697	28,469	10.8
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	10,125	12,975	28.1
Fiscal transfers	1,194	1,048	-12.2	9,021	9,363	3.8
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-1,850	-1,865	0.8
Total	2,113	2,257	6.8	18,296	20,473	11.9
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	97	41	-57.7	383	566	47.8
Foreign Affairs	122	169	38.5	1,024	1,169	14.2
Health	80	79	-1.3	819	929	13.4
Human Resources Development	208	103	-50.5	815	1,008	23.7
Indian and Northern Development	306	323	5.6	3,267	3,055	-6.5
Industry and Regional Development	192	155	-19.3	1,013	1,113	9.9
Veterans Affairs	119	130	9.2	1,078	1,130	4.8
Other	198	234	18.2	1,576	1,873	18.8
Total	1,322	1,234	-6.7	9,975	10,843	8.7
Payments to Crown corporations						
Canadian Broadcasting Corporation	103	133	29.1	778	851	9.4
Canada Mortgage and Housing Corporation	150	233	55.3	1,370	1,522	11.1
Other	190	135	-28.9	1,137	1,223	7.6
Total	443	501	13.1	3,285	3,596	9.5
Operating and capital expenditures						
Defence	814	1,089	33.8	7,648	8,085	5.7
All other departmental expenditures	1,883	2,287	21.5	16,850	16,709	-0.8
Total	2,697	3,376	25.2	24,498	24,794	1.2
Total direct program spending	4,462	5,111	14.5	37,758	39,233	3.9
<b>Total program expenditures</b>	9,515	11,016	15.8	81,751	88,175	7.9
<b>Public debt charges</b>	3,486	3,206	-8.0	31,024	29,612	-4.6
<b>Total budgetary expenditures</b>	13,001	14,222	9.4	112,775	117,787	4.4
Memorandum item:						
Total transfers	6,375	7,139	12.0	53,968	59,785	10.8

The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.

- Major transfers to other levels of government were up 11.9 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 3.9 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.4 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

### **Financial requirement of \$0.6 billion (excluding foreign exchange transactions) for April 2001 to December 2001**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary

balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$14.0 billion in the first nine months of 2001-02, compared to a net requirement of \$9.7 billion in the same period in 2000-01. The increase to date is attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account.

As a result, with a budgetary surplus of \$13.4 billion and a net requirement of \$14.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$0.6 billion in the April 2001 to December 2001 period, compared to a source of \$9.2 billion in the same period of 2000-01.

### **Net financial requirement of \$1.2 billion for April 2001 to December 2001**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.6 billion in the first nine months of 2001-02, compared to a net requirement of \$1.3 billion in the same period in 2000-01.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	December		April to December	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	3,309	1,458	18,843	13,442
<b>Loans, investments and advances</b>				
Crown corporations	40	70	348	499
Other	28	-199	-843	-1,131
Total	68	-129	-495	-632
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-497	-94	-524	-2,041
Superannuation accounts	-152	44	1,554	-1,508
Other	-8	-21	-48	57
Total	-657	-71	982	-3,492
<b>Other transactions</b>	-5,031	-2,867	-10,178	-9,868
<b>Total non-budgetary transactions</b>	-5,620	-3,067	-9,691	-13,992
<b>Financial requirements/source</b>				
(excluding foreign exchange transactions)	-2,311	-1,609	9,152	-550
<b>Foreign exchange transactions</b>	609	-142	-1,323	-643
<b>Net financial balance</b>	-1,702	-1,751	7,829	-1,193

Table 5

## Net financial balance and net borrowings

	December		April to December	
	2000	2001	2000-01	2001-02
(\$ millions)				
<b>Net financial balance</b>	-1,702	-1,751	7,829	-1,193
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-7,130	-6,663	8,319	-5,860
Treasury bills	-400	800	-21,150	6,300
Canada Savings Bonds	20	-107	-1,204	-2,618
Other	-133	-1	-95	-22
Total	-7,643	-5,971	-14,130	-2,200
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans				-41
Canada bills	773	-887	-248	-3,007
Canada notes	0	0	-36	-173
Total	773	-887	-2,486	-4,797
<b>Net change in borrowings</b>	-6,870	-6,858	-16,616	-6,997
<b>Change in cash balance</b>	-8,572	-8,609	-8,787	-8,190



Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	December 31, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	31,518	-12,126
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,677	-1,508
Canada Pension Plan (net of securities)	6,391	4,350	-2,041
Other pension and other accounts	7,253	7,310	57
Total pension and other accounts	142,829	139,337	-3,492
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	289,113	-5,860
Treasury bills	88,700	95,000	6,300
Canada Savings Bonds	26,099	23,481	-2,618
Other	3,473	3,451	-22
Subtotal	413,245	411,045	-2,200
Payable in foreign currencies	33,158	28,361	-4,797
Total unmaturred debt	446,403	439,406	-6,997
Total interest-bearing debt	589,232	578,744	-10,488
Total liabilities	632,876	610,262	-22,614
<b>Assets</b>			
Cash and accounts receivable	19,186	8,739	-10,447
Foreign exchange accounts	50,270	50,913	643
Loans, investments and advances (net of allowances)	16,042	16,674	632
Total assets	85,498	76,326	-9,172
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>533,936</b>	<b>-13,442</b>

With a budgetary surplus of \$13.4 billion, a net requirement of \$14.0 billion from non-budgetary transactions and a net requirement of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$1.2 billion in the April 2001 to December 2001 period, compared to a net source of \$7.8 billion in the same period in 2000-01.

## **Net borrowings down \$7.0 billion for April 2001 to December 2001**

Although there was a net financial requirement of \$1.2 billion in the first nine months of 2001-02, the Government did reduce its holding of market debt by \$7.0 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of December 2001 they stood at \$5.0 billion, down \$8.2 billion from March 31, 2001.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2002: budgetary deficit of \$1.9 billion

There was a budgetary deficit of \$1.9 billion in January 2002, \$1.2 billion higher than the deficit of \$0.7 billion reported in January 2001. However, the January 2001 results included the special one-time Relief for Heating Expenses of \$1.4 billion, thereby distorting the year-over-year comparisons. On a year-over-year basis budgetary revenues were \$0.5 billion lower, primarily due to lower personal income tax revenues, while program spending was \$0.8 billion higher. Public debt charges declined by \$0.1 billion, primarily reflecting the decline in interest rates.

### April 2001 to January 2002: budgetary surplus of \$11.5 billion

The budgetary surplus was estimated at \$11.5 billion for the April 2001 to January 2002 period, down \$6.6 billion from the surplus of \$18.1 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and in the December 2001 budget. In addition, the slowing economy is having an impact on most of the major revenue components and employment insurance (EI) benefits, thereby adversely affecting the overall fiscal results, compared to the same period last year. The results to date are slightly better than expected, reflecting the impact of the better-than-expected economic results for the fourth quarter of 2001, particularly on corporate income tax revenues.

### January 2002: budgetary results

Budgetary revenues declined \$0.5 billion, or 3.4 per cent, on a year-over-year basis.

- Personal income tax revenues were \$0.4 billion, or 6.0 per cent, lower due to the slowdown in the economy, tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, and enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues were marginally higher. Given the decline in corporate profits in 2001, the tax rate reductions that came into effect in January, and the December 2001 budget initiative to allow small businesses to defer their monthly income tax instalment payments, a decline was expected. With a stronger economy,

it appears that small business is not taking full advantage of the tax deferral measure.

- EI premium revenues declined 4.5 per cent, in part reflecting the impact of lower premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).
- Excise taxes and duties increased \$0.2 billion, or 5.5 per cent. Increases were reported in all components except customs import duties. The increase in goods and services tax (GST) revenues primarily reflected slower processing of refunds, as gross collections declined. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excises taxes.
- Non-tax revenues declined 15.6 per cent, largely reflecting the impact of lower interest rates.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	January		April to January	
	2001	2002	2000-01	2001-02
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	14,403	13,908	146,021	145,138
Program spending	-11,722	-12,509	-93,477	-100,684
Operating surplus	2,681	1,399	52,544	44,454
Public debt charges	-3,384	-3,317	-34,408	-32,929
Budgetary balance (deficit/surplus)	-703	-1,918	18,136	11,525
<b>Non-budgetary transactions</b>	4,088	3,000	-5,601	-10,997
<b>Financial requirements/source</b> <b>(excluding foreign exchange transactions)</b>	3,385	1,082	12,535	528
<b>Foreign exchange transactions</b>	-1,970	152	-3,293	-491
<b>Net financial balance</b>	1,415	1,234	9,242	37
<b>Net change in borrowings</b>	2,458	-1,781	-14,158	-8,780
<b>Net change in cash balances</b>	3,873	-547	-4,916	-8,743
<b>Cash balance at end of period</b>			8,039	4,442

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Program spending increased by \$0.8 billion, or 6.7 per cent, on a year-over-year basis.

- Major transfers to persons declined by \$1.0 billion, or 20.6 per cent, due to the January 2001 payment of the \$1.4-billion Relief for Heating Expenses. EI benefit payments increased 33.8 per cent, reflecting the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries due to the slowdown in the economy.
- Major transfers to other levels of government were up \$0.1 billion, or 6.8 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The decline in fiscal transfers is attributable to the timing of payments.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$1.6 billion, or 32.2 per cent, with increases reported in all major components.

Public debt charges, on a year-over year basis, were down \$0.1 billion, or 2.0 per cent, due primarily to the decline in the average effective interest rate on the debt.

### April 2001 to January 2002: budgetary results

Over the first 10 months of fiscal year 2001-02, the budgetary surplus was estimated at \$11.5 billion, down \$6.6 billion from the surplus reported in the same period of 2000-01. Program spending was up \$7.2 billion while budgetary revenues were down \$0.9 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$1.5 billion.



Table 2

## Budgetary revenues

	January		Change	April to January		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,758	6,355	-6.0	70,897	70,891	0.0
Corporate income tax	1,642	1,649	0.4	19,153	18,461	-3.6
Other income tax revenue	655	554	-15.4	3,002	3,207	6.8
Total income tax	9,055	8,558	-5.5	93,052	92,559	-0.5
<b>Employment insurance premium revenues</b>	1,439	1,374	-4.5	15,024	14,371	-4.3
<b>Excise taxes and duties</b>						
Goods and services tax	2,340	2,474	5.7	21,455	21,664	1.0
Customs import duties	219	186	-15.1	2,293	2,432	6.1
Sales and excise taxes	643	719	11.8	6,954	7,299	5.0
Total excise taxes and duties	3,202	3,379	5.5	30,702	31,395	2.3
<b>Total tax revenues</b>	13,696	13,311	-2.8	138,778	138,325	-0.3
<b>Non-tax revenues</b>	707	597	-15.6	7,243	6,813	-5.9
<b>Total budgetary revenues</b>	14,403	13,908	-3.4	146,021	145,138	-0.6

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally lower, as higher final tax payments received in April and May with respect to the 2000 taxation year and the effect of prior-year adjustments affecting the October 2000 results were offset by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.
- Corporate income tax revenues declined 3.6 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates. Large year-over-year declines are expected over the balance of the fiscal year, primarily due to lower final settlement payments, reflecting the decline in corporate profits in 2001, and to the extent that small businesses defer payments of their corporate income tax instalments for the months of February and March 2002.
- EI premium revenues were down 4.3 per cent, as the impact of prior-year adjustments, which affected the October 2000 results,

coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.

- Excise taxes and duties increased \$0.7 billion, or 2.3 per cent. GST revenues were up marginally, customs import duties were up 6.1 per cent and sales and excise taxes increased 5.0 per cent.
- Non-tax revenues were down 5.9 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 6.0 per cent due to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries. The net impact of these increases was dampened by the Relief for Heating Expenses paid in January 2001.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	January		Change	April to January		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,054	2,140	4.2	20,133	21,066	4.6
Employment insurance benefits	1,157	1,548	33.8	8,775	11,091	26.4
Relief for Heating Expenses	1,434			1,434		
Total	4,645	3,688	-20.6	30,342	32,157	6.0
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	11,250	14,416	28.1
Fiscal transfers	1,181	1,034	-12.4	10,201	10,397	1.9
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-2,055	-2,098	2.1
Total	2,100	2,243	6.8	20,396	22,715	11.4
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	57	43	-24.6	440	609	38.4
Foreign Affairs	149	243	63.1	1,175	1,411	20.1
Health	105	145	38.1	925	1,075	16.2
Human Resources Development	366	370	1.1	1,181	1,378	16.7
Indian and Northern Development	206	299	45.1	3,473	3,354	-3.4
Industry and Regional Development	87	71	-18.4	1,100	1,183	7.5
Veterans Affairs	130	138	6.2	1,208	1,268	5.0
Other	202	378	87.1	1,779	2,253	26.6
Total	1,302	1,687	29.6	11,281	12,531	11.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	65	0.0	843	916	8.7
Canada Mortgage and Housing Corporation	150	158	5.3	1,520	1,680	10.5
Other	82	190	131.7	1,221	1,411	15.6
Total	297	413	39.1	3,584	4,007	11.8
Operating and capital expenditures						
Defence	1,004	1,336	33.1	8,652	9,420	8.9
All other departmental expenditures	2,374	3,142	32.4	19,222	19,854	3.3
Total	3,378	4,478	32.6	27,874	29,274	5.0
Total direct program spending	4,977	6,578	32.2	42,739	45,812	7.2
<b>Total program expenditures</b>	11,722	12,509	6.7	93,477	100,684	7.7
<b>Public debt charges</b>	3,384	3,317	-2.0	34,408	32,929	-4.3
<b>Total budgetary expenditures</b>	15,106	15,826	4.8	127,885	133,613	4.5
Memorandum item:						
Total transfers	8,047	7,618	-5.3	62,019	67,403	8.7

- Major transfers to other levels of government were up 11.4 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements. The overall growth in this component was dampened by the special payment of \$1 billion to the Medical Equipment Fund in 2000-01.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 7.2 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded at the end of the fiscal year than in previous years.

The year-over-year decline in public debt charges of \$1.5 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

### **Financial source of \$0.5 billion (excluding foreign exchange transactions) for April 2001 to January 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in

loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$11.0 billion in the first 10 months of 2001-02, compared to a net requirement of \$5.6 billion in the same period of 2000-01. The increase to date is attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account.

As a result, with a budgetary surplus of \$11.5 billion and a net requirement of \$11.0 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$0.5 billion in the April 2001 to January 2002 period, compared to a source of \$12.5 billion in the same period of 2000-01.

### **Net financial source of \$37 million for April 2001 to January 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.5 billion in the first 10 months of 2001-02, compared to a net requirement of \$3.3 billion in the same period of 2000-01.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	January		April to January	
	2001	2002	2000-01	2001-02
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-703	-1,918	18,136	11,525
<b>Loans, investments and advances</b>				
Crown corporations	53	46	401	544
Other	-43	-208	-885	-1,338
Total	10	-162	-484	-794
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-352	320	-876	-1,720
Superannuation accounts	17	-50	1,571	-1,558
Other	17	50	-31	106
Total	-318	320	664	-3,172
<b>Other transactions</b>	4,396	2,842	-5,781	-7,031
<b>Total non-budgetary transactions</b>	4,088	3,000	-5,601	-10,997
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,385	1,082	12,535	528
<b>Foreign exchange transactions</b>	-1,970	152	-3,293	-491
<b>Net financial balance</b>	1,415	1,234	9,242	37

Table 5

## Net financial balance and net borrowings

	January		April to January	
	2001	2002	2000-01	2001-02
(\$ millions)				
<b>Net financial balance</b>	1,415	1,234	9,242	37
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	1,500	364	9,819	-5,497
Treasury bills	900	-1,200	-20,250	5,100
Canada Savings Bonds	136	-118	-1,067	-2,737
Other	34	-25	-62	-47
Total	2,570	-979	-11,560	-3,181
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans	-580	-473	-580	-514
Canada bills	468	-329	220	-3,336
Canada notes	0	0	-36	-173
Total	-112	-802	-2,598	-5,599
<b>Net change in borrowings</b>	2,458	-1,781	-14,158	-8,780
<b>Change in cash balance</b>	3,873	-547	-4,916	-8,743



Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	January 31, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	35,030	-8,614
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,627	-1,558
Canada Pension Plan (net of securities)	6,391	4,671	-1,720
Other pension and other accounts	7,253	7,359	106
Total pension and other accounts	142,829	139,657	-3,172
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	289,476	-5,497
Treasury bills	88,700	93,800	5,100
Canada Savings Bonds	26,099	23,362	-2,737
Other	3,473	3,427	-46
Subtotal	413,245	410,066	-3,179
Payable in foreign currencies	33,158	27,559	-5,599
Total unmaturred debt	446,403	437,624	-8,779
Total interest-bearing debt	589,232	577,281	-11,951
Total liabilities	632,876	612,311	-20,565
<b>Assets</b>			
Cash and accounts receivable	19,186	8,860	-10,326
Foreign exchange accounts	50,270	50,761	491
Loans, investments and advances (net of allowances)	16,042	16,836	794
Total assets	85,498	76,458	-9,041
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>535,853</b>	<b>-11,525</b>

With a budgetary surplus of \$11.5 billion, a net requirement of \$11.0 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$37 million in the April 2001 to January 2002 period, compared to a net source of \$9.2 billion in the same period of 2000-01.

## **Net borrowings down \$8.8 billion for April 2001 to January 2002**

Although there was a net financial source of only \$37 million in the first 10 months of 2001-02, the Government did reduce its holding of market debt by \$8.8 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of January 2002 they stood at \$4.4 billion.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### February 2002: budgetary surplus of \$3.1 billion

There was a budgetary surplus of \$3.1 billion in February 2002, \$1.3 billion lower than the surplus of \$4.4 billion reported in February 2001. In the last few years large surpluses have been recorded in February, as these results include the final corporate income tax settlement payments from those corporations whose taxation year ends on December 31. On a year-over-year basis budgetary revenues were \$0.7 billion lower, as lower corporate income tax revenues more than offset increases in most of the other major revenue components. Program spending was \$0.9 billion higher, while public debt charges declined by \$0.4 billion.

### April 2001 to February 2002: budgetary surplus of \$14.7 billion

The budgetary surplus was estimated at \$14.7 billion for the April 2001 to February 2002 period, down \$7.9 billion from the surplus of \$22.5 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and in the December 2001 budget. In addition, the slowdown in the economy in 2001 is having an impact on most of the major revenue components and employment insurance (EI) benefits, thereby adversely affecting the overall fiscal results, compared to the same period of 2000-01.

Developments over the balance of the fiscal year will sharply reduce the cumulative surplus to date. These include the impact of the tax reductions announced in the October 2000 *Economic Statement and Budget Update* that came into effect in January 2002, as well as proposed funding for a number of initiatives announced in the December 2001 budget. In addition, adjustments will be made in the end-of-year accounting period to include the costs of goods and services received in late 2001-02, but for which payments are not made until the April/May period, and personal income tax refunds processed in March 2002 relating to the 2001 taxation year.

The results to date are somewhat better than expected at the time of the December 2001 budget, reflecting the impact of the better-than-expected economic results for the fourth quarter of 2001, which continued into the first quarter of 2002.

### February 2002: budgetary results

Budgetary revenues declined \$0.7 billion, or 4.2 per cent, on a year-over-year basis.

- Personal income tax revenues were \$0.3 billion, or 5.7 per cent, higher, primarily due to surprising strength in monthly deductions from employment income. It is still too early to assess whether this is due to timing factors or reflects improved economic developments.

- Corporate income tax revenues were down \$1.2 billion, or 19.8 per cent. This primarily reflects the interaction of remittance procedures for corporations with the decline in corporate profits in 2001. Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability. They have 60 days after their year-end to make settlement payments for any amounts owing.

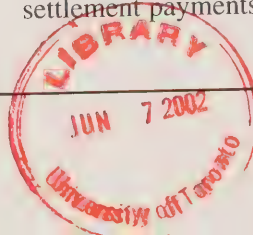


Table 1

## Summary statement of transactions

	February		April to February	
	2001	2002	2000-01	2001-02
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	17,705	16,966	163,727	162,105
Program spending	-9,867	-10,810	-103,342	-111,494
Operating surplus	7,838	6,156	60,385	50,611
Public debt charges	-3,440	-3,023	-37,848	-35,952
Budgetary balance (deficit/surplus)	4,398	3,133	22,537	14,659
<b>Non-budgetary transactions</b>	-1,202	-296	-6,801	-11,291
<b>Financial requirements/source</b> (excluding foreign exchange transactions)	3,196	2,837	15,736	3,368
<b>Foreign exchange transactions</b>	-644	-626	-3,937	-1,117
<b>Net financial balance</b>	2,552	2,211	11,799	2,251
<b>Net change in borrowings</b>	2,894	3,322	-11,264	-5,457
<b>Net change in cash balances</b>	5,446	5,533	535	-3,206
<b>Cash balance at end of period</b>			8,039	4,442

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

As most of the large non-financial sector corporations have a December year-end, a substantial amount of corporate income tax revenues are received in February – ranging from 25 per cent to 40 per cent of the total revenues for the year as a whole. As corporate profits were lower in 2001 than in 2000, a decline in final settlement payments in February 2002 was expected. Also, while the December 2001 budget allowed small businesses to defer their monthly income tax instalment payments for the months of January, February and March, it appears that small business is not taking full advantage of the tax deferral measure.

- EI premium revenues declined 2.8 per cent, reflecting the impact of lower premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).
- Excise taxes and duties increased \$0.4 billion, or 17.2 per cent. Increases were reported in all components. The increases in both goods and services tax (GST) revenues and customs

import duties reflected timing factors. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excise taxes.

- Non-tax revenues increased 13.3 per cent, largely due to the timing of receipts from the sale of goods and services.

Program spending was up \$0.9 billion, or 9.6 per cent, on a year-over-year basis.

- Major transfers to persons increased by \$0.2 billion, or 5.3 per cent. EI benefit payments increased 7.3 per cent – the first time the rate of increase has been below double-digit increases since May 2001.
- Major transfers to other levels of government were up \$0.1 billion, or 6.2 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02.



Table 2

## Budgetary revenues

	February		Change	April to February		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,906	6,242	5.7	76,802	77,132	0.4
Corporate income tax	6,117	4,903	-19.8	25,270	23,365	-7.5
Other income tax revenue	521	175	-66.4	3,524	3,383	-4.0
Total income tax	12,544	11,320	-9.8	105,596	103,880	-1.6
<b>Employment insurance premium revenues</b>	1,868	1,815	-2.8	16,893	16,186	-4.2
<b>Excise taxes and duties</b>						
Goods and services tax	1,739	2,028	16.6	23,194	23,693	2.2
Customs import duties	224	328	46.4	2,517	2,760	9.7
Sales and excise taxes	595	642	7.9	7,550	7,941	5.2
Total excise taxes and duties	2,558	2,998	17.2	33,261	34,394	3.4
<b>Total tax revenues</b>	16,970	16,133	-4.9	155,750	154,460	-0.8
<b>Non-tax revenues</b>	735	833	13.3	7,977	7,645	-4.2
<b>Total budgetary revenues</b>	17,705	16,966	-4.2	163,727	162,105	-1.0

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.6 billion, or 14.2 per cent, as increases in operating and capital expenditures more than offset declines in the other major components.

Public debt charges, on a year-over year basis, were down \$0.4 billion, or 12.1 per cent, primarily reflecting adjustments related to previous months.

### April 2001 to February 2002: budgetary results

Over the April 2001 to February 2002 period the budgetary surplus was estimated at \$14.7 billion, down \$7.9 billion from the surplus of \$22.5 billion reported in the same period of 2000-01. Program spending was up \$8.2 billion while budgetary revenues were down \$1.6 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$1.9 billion.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally higher, as higher final tax payments received in April and May with respect to the 2000 taxation year, prior-year adjustments affecting the October 2000 results, and an increase in assessed income subject to taxation due to higher employment and average wages in 2001 were largely offset by the impact of the tax reduction measures announced in the February 2000 budget, the October 2000 *Economic Statement and Budget Update* and previous budgets.
- Corporate income tax revenues declined 7.5 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates.
- EI premium revenues were down 4.2 per cent, as the impact of prior-year adjustments, which affected the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	February		Change	April to February		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,055	2,140	4.1	22,188	23,207	4.6
Employment insurance benefits	1,195	1,282	7.3	9,970	12,373	24.1
Relief for Heating Expenses				1,434		
Total	3,250	3,422	5.3	33,592	35,580	5.9
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	12,375	15,858	28.1
Fiscal transfers	1,194	1,036	-13.2	11,396	11,433	0.3
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-2,260	-2,331	3.1
Total	2,113	2,245	6.2	22,511	24,960	10.9
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	159	106	-33.3	599	715	19.4
Foreign Affairs	249	155	-37.8	1,422	1,565	10.1
Health	85	95	11.8	1,010	1,170	15.8
Human Resources Development	141	167	18.4	1,322	1,546	16.9
Indian and Northern Development	268	245	-8.6	3,742	3,600	-3.8
Industry and Regional Development	213	138	-35.2	1,313	1,322	0.7
Veterans Affairs	126	134	6.3	1,334	1,402	5.1
Other	204	169	-17.2	1,983	2,424	22.2
Total	1,445	1,209	-16.3	12,725	13,744	8.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	15	50	233.3	859	966	12.5
Canada Mortgage and Housing Corporation	150	75	-50.0	1,670	1,755	5.1
Other	71	70	-1.4	1,292	1,480	14.6
Total	236	195	-17.4	3,821	4,201	9.9
Operating and capital expenditures						
Defence	902	1,256	39.2	9,553	10,677	11.8
All other departmental expenditures	1,921	2,483	29.3	21,140	22,332	5.6
Total	2,823	3,739	32.4	30,693	33,009	7.5
Total direct program spending	4,504	5,143	14.2	47,239	50,954	7.9
<b>Total program expenditures</b>	9,867	10,810	9.6	103,342	111,494	7.9
<b>Public debt charges</b>	3,440	3,023	-12.1	37,848	35,952	-5.0
<b>Total budgetary expenditures</b>	13,307	13,833	4.0	141,190	147,446	4.4
Memorandum item:						
Total transfers	6,808	6,876	1.0	68,828	74,284	7.9

- Excise taxes and duties increased 3.4 per cent. GST revenues were up 2.2 per cent, broadly in line with the increase in domestic demand, customs import duties were up 9.7 per cent and sales and excise taxes increased 5.2 per cent, the latter primarily reflecting the impact of higher tobacco excise taxes.
- Non-tax revenues were down 4.2 per cent, primarily reflecting the impact of lower interest rates.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 5.9 per cent due to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries. The net impact of these increases was dampened by the Relief for Heating Expenses paid in January 2001.
- Major transfers to other levels of government were up 10.9 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements. The overall growth in this component was dampened by the special payment of \$1 billion to the Medical Equipment Fund in 2000-01.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 7.9 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded at the end of the fiscal year than in previous years.

The year-over-year decline in public debt charges of \$1.9 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

## **Financial source of \$3.4 billion (excluding foreign exchange transactions) for April 2001 to February 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$11.3 billion in the first 11 months of 2001-02, compared to a net requirement of \$6.8 billion in the same period of 2000-01. The increase to date is largely attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans.

As a result, with a budgetary surplus of \$14.7 billion and a net requirement of \$11.3 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$3.4 billion in the April 2001 to February 2002 period, compared to a source of \$15.7 billion in the same period of 2000-01.



# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	February		April to February	
	2001	2002	2000-01	2001-02
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	4,398	3,133	22,537	14,659
<b>Loans, investments and advances</b>				
Crown corporations	4	7	405	551
Other	-4	182	-890	-1,156
Total	0	189	-485	-605
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	490	1,032	-386	-689
Superannuation accounts	-202	-168	1,369	-1,726
Other	139	91	109	197
Total	427	955	1,092	-2,218
<b>Other transactions</b>	-1,629	-1,440	-7,408	-8,468
<b>Total non-budgetary transactions</b>	-1,202	-296	-6,801	-11,291
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,196	2,837	15,736	3,368
<b>Foreign exchange transactions</b>	-644	-626	-3,937	-1,117
<b>Net financial balance</b>	2,552	2,211	11,799	2,251

Table 5

## Net financial balance and net borrowings

	February		April to February	
	2001	2002	2000-01	2001-02
	(\$ millions)			
<b>Net financial balance</b>	2,552	2,211	11,799	2,251
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	575	2,982	10,394	-2,515
Treasury bills	2,100	600	-18,150	5,700
Canada Savings Bonds	313	-133	-754	-2,870
Other	0	-17	-62	-63
Total	2,988	3,432	-8,572	252
Payable in foreign currencies				
Marketable bonds	-1,965	0	-4,167	-1,576
Notes and loans	1,965	0	1,385	-514
Canada bills	-94	48	126	-3,288
Canada notes	0	-158	-36	-331
Total	-94	-110	-2,692	-5,709
<b>Net change in borrowings</b>	2,894	3,322	-11,264	-5,457
<b>Change in cash balance</b>	5,446	5,533	535	-3,206



Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	February 28, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	38,347	-5,297
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,459	-1,726
Canada Pension Plan (net of securities)	6,391	5,702	-689
Other pension and other accounts	7,253	7,450	197
Total pension and other accounts	142,829	140,611	-2,218
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	292,458	-2,515
Treasury bills	88,700	94,400	5,700
Canada Savings Bonds	26,099	23,229	-2,870
Other	3,473	3,411	-62
Subtotal	413,245	413,499	254
Payable in foreign currencies	33,158	27,449	-5,709
Total unmaturred debt	446,403	440,947	-5,456
Total interest-bearing debt	589,232	581,558	-7,674
Total liabilities	632,876	619,905	-12,971
<b>Assets</b>			
Cash and accounts receivable	19,186	19,151	-35
Foreign exchange accounts	50,270	51,387	1,117
Loans, investments and advances (net of allowances)	16,042	16,647	605
Total assets	85,498	87,186	1,687
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>532,719</b>	<b>-14,659</b>

## **Net financial source of \$2.3 billion for April 2001 to February 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$1.1 billion in the first 11 months of 2001-02, compared to a net requirement of \$3.9 billion in the same period of 2000-01.

With a budgetary surplus of \$14.7 billion, a net requirement of \$11.3 billion from non-budgetary transactions and a net requirement of \$1.1 billion from foreign exchange transactions, there was a net financial source of \$2.3 billion in the April 2001 to February 2002 period, compared to a net source of \$11.8 billion in the same period of 2000-01.

## **Net borrowings down \$5.5 billion for April 2001 to February 2002**

Although there was a net financial source of only \$2.3 billion in the first 11 months of 2001-02, the Government did reduce its holding of market debt by \$5.5 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of February 2002 they stood at \$4.4 billion.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2002: budgetary deficit of \$4.9 billion

There was a budgetary deficit of \$4.9 billion in March 2002, up \$2.4 billion from the deficit of \$2.5 billion reported in March 2001. The year-over-year increase primarily reflects the impact of the timing of receipts and payments between February and March, which served to overstate the February 2002 surplus. On a year-over-year basis budgetary revenues were \$1.3 billion lower, primarily reflecting the timing of corporate income tax revenues, while program spending was \$1.9 billion higher, attributable in part to the timing of employment insurance (EI) benefits. Public debt charges declined by \$0.8 billion.

### April 2001 to March 2002: budgetary surplus of \$9.8 billion

The budgetary surplus was estimated at \$9.8 billion for the April 2001 to March 2002 period, down \$10.3 billion from the surplus of \$20.1 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and in the December 2001 budget. In addition, the slowdown in the economy in 2001 had an impact on most of the major revenue components and EI benefits, thereby adversely affecting the overall fiscal results, compared to the same period of 2000-01.

These are not the final results for the 2001-02 fiscal year. Still to come are the regular end-of-year accounting adjustments. Consistent with government accounting principles, these adjustments incorporate increases in program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 2001-02. For example, the final audited outcome for 2000-01 was \$17.1 billion, while the surplus to the end of March 2001 was \$20.1 billion. The end-of-year accounting adjustments could be somewhat larger this year than in previous years as the monthly profile of program spending reflects the implementation of the new Financial Information Strategy, with a larger portion of spending likely being recorded at the end of the fiscal year than previously.

The results to date are somewhat better than expected at the time of the December 2001 budget, reflecting the better-than-expected economic performance in the fourth quarter of 2001, which continued into the first quarter of 2002.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	2001	2002	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,277	12,024	177,006	174,130
Program spending	-12,201	-14,150	-115,542	-125,643
Operating surplus	1,076	-2,126	61,464	48,487
Public debt charges	-3,564	-2,757	-41,412	-38,709
Budgetary balance (deficit/surplus)	-2,488	-4,883	20,052	9,778
<b>Non-budgetary transactions</b>	6,317	7,327	-485	-3,969
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,829	2,444	19,567	5,809
<b>Foreign exchange transactions</b>	-4,716	-732	-8,654	-1,849
<b>Net financial balance</b>	-887	1,712	10,913	3,960
<b>Net change in borrowings</b>	582	267	-10,682	-5,189
<b>Net change in cash balances</b>	-305	1,979	231	-1,229
<b>Cash balance at end of period</b>			13,179	11,950

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

### March 2002: budgetary results

Budgetary revenues declined \$1.3 billion, or 9.4 per cent, on a year-over-year basis. All major components recorded declines, with the exception of personal income tax revenues.

- Personal income tax revenues were \$0.1 billion, or 1.8 per cent, higher, primarily reflecting ongoing strength in monthly deductions from employment income, offset in part by higher refunds pertaining to the 2001 taxation year and increased payments under the Canada Child Tax Benefit reflecting previous budget initiatives.
- Corporate income tax revenues were down \$1.1 billion, or 45.8 per cent. Although February is the settlement period for corporations whose taxation year ends December 31, some payments slip into early March. In February and March revenues were down \$2.3 billion compared to the same period last year, reflecting lower corporate profits in 2001 than in 2000.

- EI premium revenues declined 3.5 per cent, reflecting the impact of lower premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).
- Excise taxes and duties declined \$0.1 billion, or 2.5 per cent. This primarily reflects the timing of receipts, as February 2002 revenues were up 17.2 per cent on a year-over-year basis. Declines were reported in all components, with the exception of sales and excise taxes. The increase in this component was attributable to higher federal taxes on tobacco products effective November 2, 2001.
- Non-tax revenues declined 7.1 per cent, again largely due to the timing of receipts, as February 2002 revenues were up 13.3 per cent on a year-over-year basis.

Program spending was up \$1.9 billion, or 16.0 per cent, on a year-over-year basis.

- Transfers to persons increased by \$0.5 billion, or 17.8 per cent. EI benefit payments increased 43.6 per cent, in part due to the timing of payments between February and March.



Table 2

## Budgetary revenues

	March		Change	April to March		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	4,546	4,628	1.8	81,350	81,760	0.5
Corporate income tax	2,349	1,272	-45.8	27,619	24,637	-10.8
Other income tax revenue	692	655	-5.3	4,216	4,038	-4.2
Total income tax	7,587	6,555	-13.6	113,185	110,435	-2.4
<b>Employment insurance premium revenues</b>	1,839	1,774	-3.5	18,732	17,960	-4.1
<b>Excise taxes and duties</b>						
Goods and services tax	1,619	1,582	-2.3	24,812	25,275	1.9
Customs import duties	274	220	-19.7	2,791	2,979	6.7
Sales and excise taxes	674	700	3.9	8,224	8,641	5.1
Total excise taxes and duties	2,567	2,502	-2.5	35,827	36,895	3.0
<b>Total tax revenues</b>	11,993	10,831	-9.7	167,744	165,290	-1.5
<b>Non-tax revenues</b>	1,284	1,193	-7.1	9,262	8,840	-4.6
<b>Total budgetary revenues</b>	13,277	12,024	-9.4	177,006	174,130	-1.6

In February 2002 benefits were up only 7.3 per cent – the first time the rate of increase had been below double-digit increases since May 2001.

- Transfers to other levels of government were up \$0.1 billion, or 5.3 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased \$1.3 billion, or 17.9 per cent. The increase primarily reflects the impact of the implementation of the Financial Information Strategy, with a larger portion of spending being recorded at the end of the fiscal year than in previous years.

Public debt charges, on a year-over year basis, were down \$0.8 billion, or 22.6 per cent, primarily reflecting adjustments related to previous months.

## April 2001 to March 2002: budgetary results

Over the April 2001 to March 2002 period the budgetary surplus was estimated at \$9.8 billion, down \$10.3 billion from the surplus of \$20.1 billion reported in the same period of 2000-01. Program spending was up \$10.1 billion while budgetary revenues were down \$2.9 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$2.7 billion.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally higher, as higher final tax payments received in April and May 2001 with respect to the 2000 taxation year, prior-year adjustments affecting the October 2000 results, and an increase in assessed income subject to taxation due to higher employment and average wages in 2001 were largely offset by the impact of the tax reduction measures announced in the February 2000 budget, the October 2000 *Economic Statement and Budget Update* and previous budgets.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	March		Change	April to March		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,057	2,157	4.9	24,245	25,364	4.6
Employment insurance benefits	1,030	1,479	43.6	10,999	13,852	25.9
Relief for Heating Expenses				1,434		
Total	3,087	3,636	17.8	36,678	39,216	6.9
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	13,500	17,300	28.1
Fiscal transfers	907	713	-21.4	12,303	12,146	-1.3
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-232	12.6	-2,466	-2,563	3.9
Total	1,826	1,923	5.3	24,337	26,883	10.5
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	633	584	-7.7	1,232	1,298	5.4
Foreign Affairs	291	566	94.5	1,713	2,131	24.4
Health	97	317	226.8	1,107	1,486	34.2
Human Resources Development	363	165	-54.5	1,685	1,711	1.5
Indian and Northern Development	144	345	139.6	3,886	3,944	1.5
Industry and Regional Development	407	836	105.4	1,720	2,157	25.4
Veterans Affairs	125	144	15.2	1,458	1,547	6.1
Other	652	586	-10.1	2,635	3,009	14.2
Total	2,712	3,543	30.6	15,436	17,283	12.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	43	15	-65.1	902	981	8.8
Canada Mortgage and Housing Corporation	320	168	-47.5	1,990	1,923	-3.4
Other	91	188	106.6	1,383	1,667	20.5
Total	454	371	-18.3	4,275	4,571	6.9
Operating and capital expenditures						
Defence	1,436	1,623	13.0	10,992	12,301	11.9
All other departmental expenditures	2,686	3,054	13.7	23,824	25,389	6.6
Total	4,122	4,677	13.5	34,816	37,690	8.3
Total direct program spending	7,288	8,591	17.9	54,527	59,544	9.2
<b>Total program expenditures</b>	12,201	14,150	16.0	115,542	125,643	8.7
<b>Public debt charges</b>	3,564	2,757	-22.6	41,412	38,709	-6.5
<b>Total budgetary expenditures</b>	15,765	16,907	7.2	156,954	164,352	4.7
Memorandum item:						
Total transfers	7,625	9,102	19.4	76,451	83,382	9.1

- Corporate income tax revenues declined \$3.0 billion, or 10.8 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates.
- EI premium revenues were down 4.1 per cent, as prior-year adjustments affecting the October 2000 results and the decline in premium rates more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased 3.0 per cent. Goods and services tax revenues were up 1.9 per cent, broadly in line with the increase in domestic demand, customs import duties were up 6.7 per cent and sales and excise taxes increased 5.1 per cent, the latter primarily reflecting the impact of higher tobacco excise taxes.
- Non-tax revenues were down 4.6 per cent, primarily reflecting the impact of lower interest rates.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 6.9 per cent due to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries. The net impact of these increases was dampened by the Relief for Heating Expenses paid in January 2001.
- Transfers to other levels of government were up 10.5 per cent, reflecting higher cash transfers under the CHST. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The overall growth in this component was dampened by the special payment of \$1 billion to the Medical Equipment Fund in 2000-01 and by a decline in fiscal transfers due to the recording in 2000-01 of the liability for lifting the equalization ceiling in 1999-2000.

- Direct program spending increased 9.2 per cent. This reflects in large part the initiatives announced in the December 2001 budget, notably the measures to enhance personal and economic security.

The year-over-year decline in public debt charges of \$2.7 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

## **Financial source of \$5.8 billion (excluding foreign exchange transactions) for April 2001 to March 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.0 billion in the April 2001 to March 2002 period, compared to a net requirement of \$0.5 billion in the same period of 2000-01. The increase to date is largely attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans.

As a result, with a budgetary surplus of \$9.8 billion and a net requirement of \$4.0 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$5.8 billion in the April 2001 to March 2002 period, compared to a source of \$19.6 billion in the same period of 2000-01.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	March		April to March	
	2001	2002	2000-01	2001-02
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-2,488	-4,883	20,052	9,778
<b>Loans, investments and advances</b>				
Crown corporations	99	371	504	923
Other	-87	-111	-976	-1,268
Total	12	260	-472	-345
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	578	1,053	192	365
Superannuation accounts	-24	-249	1,346	-1,976
Other	8	5	117	201
Total	562	809	1,655	-1,410
<b>Other transactions</b>	5,743	6,258	-1,668	-2,214
<b>Total non-budgetary transactions</b>	6,317	7,327	-485	-3,969
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,829	2,444	19,567	5,809
<b>Foreign exchange transactions</b>	-4,716	-732	-8,654	-1,849
<b>Net financial balance</b>	-887	1,712	10,913	3,960

Table 5

## Net financial balance and net borrowings

	March		April to March	
	2001	2002	2000-01	2001-02
(\$ millions)				
<b>Net financial balance</b>	-887	1,712	10,913	3,960
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-9,694	916	700	-1,598
Treasury bills	7,000	-200	-11,150	5,500
Canada Savings Bonds	18	-16	-736	-2,886
Other	-17	-20	-79	-83
Total	-2,693	680	-11,265	933
Payable in foreign currencies				
Marketable bonds	3,003	218	-1,164	-1,358
Notes and loans	-1,385	0	0	-514
Canada bills	1,094	-584	1,220	-3,872
Canada notes	563	-47	527	-378
Total	3,275	-413	583	-6,122
<b>Net change in borrowings</b>	582	267	-10,682	-5,189
<b>Change in cash balance</b>	-305	1,979	231	-1,229



Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	March 31, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	38,270	-5,374
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,209	-1,976
Canada Pension Plan (net of securities)	6,391	6,756	365
Other pension and other accounts	7,253	7,454	201
Total pension and other accounts	142,829	141,419	-1,410
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	293,375	-1,598
Treasury bills	88,700	94,200	5,500
Canada Savings Bonds	26,099	23,213	-2,886
Other	3,473	3,391	-82
Subtotal	413,245	414,180	935
Payable in foreign currencies	33,158	27,036	-6,122
Total unmaturred debt	446,403	441,215	-5,188
Total interest-bearing debt	589,232	582,634	-6,598
Total liabilities	632,876	620,904	-11,973
<b>Assets</b>			
Cash and accounts receivable	19,186	14,796	-4,390
Foreign exchange accounts	50,270	52,119	1,849
Loans, investments and advances (net of allowances)	16,042	16,387	345
Total assets	85,498	83,303	-2,196
<b>Accumulated deficit (net public debt)</b>	<b>547,378</b>	<b>537,601</b>	<b>-9,778</b>

## **Net financial source of \$4.0 billion for April 2001 to March 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$1.8 billion in the April 2001 to March 2002 period, compared to a net requirement of \$8.7 billion in the same period of 2000-01.

With a budgetary surplus of \$9.8 billion, a net requirement of \$4.0 billion from non-budgetary transactions and a net requirement of \$1.8 billion

from foreign exchange transactions, there was a net financial source of \$4.0 billion in the April 2001 to March 2002 period, compared to a net source of \$10.9 billion in the same period of 2000-01.

## **Net borrowings down \$5.2 billion for April 2001 to March 2002**

In 2001-02 the Government reduced its holding of market debt by \$5.2 billion by applying the net financial source of \$4.0 billion and drawing down its cash balances by \$1.2 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of March 2002 they stood at \$12.0 billion.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for April 2002

### Budgetary surplus of \$0.9 billion in April 2002

There was a budgetary surplus of \$0.9 billion in April 2002, down \$2.6 billion from the revised surplus of \$3.5 billion in April 2001.<sup>1</sup> On a year-over-year basis, the lower surplus was attributable to a decline in budgetary revenues (down \$2.4 billion) and higher program spending (up \$0.8 billion). The impact of these developments was partially offset by lower public debt charges (down \$0.5 billion).

The decline of \$2.4 billion, or 14.6 per cent, in budgetary revenues on a year-over year basis was spread throughout all the major components except excise taxes and duties.

- Personal income tax collections were down \$2.1 billion, or 24.6 per cent. Most of this decline was attributable to lower final tax settlement payments and higher refunds with respect to the 2001 tax year. Final tax settlement payments in April 2001 were extraordinarily high, reflecting, among others things, strong increases in capital gains in the 2000 tax year. However, the decline in the stock market in 2001, coupled with the impact of lower interest rates on other components of investment income, resulted in much lower final tax settlement payments and higher refunds. Monthly deductions from employment income were somewhat lower, reflecting the timing of receipts and the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.

- Corporate income tax collections declined \$0.7 billion, or 30.5 per cent, primarily attributable to higher refunds reflecting the weakness in corporate profits in 2001.
- Employment insurance (EI) premium revenues were down 2.7 per cent, largely due to the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).
- Excise taxes and duties were up \$0.6 billion, or 23.7 per cent, primarily reflecting strong growth in imports, which resulted in higher GST revenues and customs import duties. Sales and excise taxes were also higher, primarily attributable to the increase in tobacco taxes.
- Non-tax revenues were down 14.4 per cent.

Program spending increased by \$0.8 billion, or 8.7 per cent, on a year-over-year basis.

- Major transfers to persons were up \$0.4 billion, or 12.3 per cent. The increase in elderly benefits reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.
- Major transfers to other levels of government were up \$53 million, or 2.4 per cent, attributable to higher cash transfers under the Canada Health and Social Transfer, reflecting the September 2000 agreement reached by first ministers to increase base funding from

<sup>1</sup> The budgetary surplus for April 2001 was originally estimated at \$4.6 billion. However, this result was affected by systems problems relating to personal income tax and goods and services tax (GST) refunds. This had the effect of overstating the April 2001 surplus by \$1.1 billion and understating the surplus in the May and June period by a comparable amount. This will have no impact on the final results for the year as a whole.



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# The Fiscal Monitor

Table 1

## Summary statement of transactions

	April	
	2001	2002
	(\$ millions)	
<b>Budgetary transactions</b>		
Revenues	16,126	13,776
Program spending	-9,226	-10,029
Operating surplus	6,900	3,747
Public debt charges	-3,389	-2,875
Budgetary balance (deficit/surplus)	3,511	872
<b>Non-budgetary transactions</b>	-3,952	-5,552
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-441	-4,680
<b>Foreign exchange transactions</b>	158	-668
<b>Net financial balance</b>	-283	-5,348
<b>Net change in borrowings</b>	70	-940
<b>Net change in cash balances</b>	-213	-6,288
<b>Cash balance at end of period</b>	5,818	12,965

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for April 2001 have been revised from those previously published.

\$17.3 billion in 2001-02 to \$18.6 billion in 2002-03. The decline in fiscal transfers was primarily attributable to the timing of payments, which should be reversed in future months.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased by \$0.4 billion, or 9.2 per cent. Subsidies and other transfers and payments to Crown corporations declined, while operating and capital expenditures were higher. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges were down \$0.5 billion, or 15.2 per cent, attributable to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

## Financial requirement of \$4.7 billion (excluding foreign exchange transactions) in April 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal



Table 4

## The budgetary balance and financial requirements/source

	April	
	2001	2002
	(\$ millions)	
<b>Budgetary balance (deficit/surplus)</b>	3,511	872
<b>Loans, investments and advances</b>		
Crown corporations	132	13
Other	-14	8
Total	118	21
<b>Specified purpose accounts</b>		
Canada Pension Plan Account	-400	-129
Superannuation accounts	46	-45
Other	21	-38
Total	-333	-212
<b>Other transactions</b>	-3,737	-5,361
<b>Total non-budgetary transactions</b>	-3,952	-5,552
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-441	-4,680
<b>Foreign exchange transactions</b>	158	-668
<b>Net financial balance</b>	-283	-5,348

Table 5

## Net financial balance and net borrowings

	April	
	2001	2002
	(\$ millions)	
<b>Net financial balance</b>	-283	-5,348
<b>Net increase (+)/decrease (-) in borrowings</b>		
Payable in Canadian dollars		
Marketable bonds	1,371	-5,200
Treasury bills	-700	4,300
Canada Savings Bonds	-1	-57
Other	0	0
Total	670	-957
Payable in foreign currencies		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-490	17
Canada notes	-110	0
Total	-600	17
<b>Net change in borrowings</b>	70	-940
<b>Change in cash balance</b>	-213	-6,288

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	April		Change (%)
	2001 (\$ millions)	2002	
<b>Transfer payments to:</b>			
Persons			
Elderly benefits	2,063	2,166	5.0
Employment insurance benefits	1,113	1,402	26.0
Total	3,176	3,568	12.3
Other levels of government			
Canada Health and Social Transfer	1,441	1,550	7.6
Fiscal transfers	923	877	-5.0
Alternative Payments for Standing Programs	-200	-210	5.0
Total	2,164	2,217	2.4
<b>Direct program spending</b>			
Subsidies and other transfers			
Agriculture	38	16	-57.9
Foreign Affairs	122	41	-66.4
Health	10	110	1,000.0
Human Resources Development	26	70	169.2
Indian and Northern Development	690	609	-11.7
Industry and Regional Development	112	109	-2.7
Veterans Affairs	118	143	21.2
Other	306	163	-46.7
Total	1,422	1,261	-11.3
Payments to Crown corporations			
Canadian Broadcasting Corporation	200	182	-9.0
Canada Mortgage and Housing Corporation	158	171	8.2
Other	221	225	1.8
Total	579	578	-0.2
Operating and capital expenditures			
Defence	505	580	14.9
All other departmental expenditures	1,380	1,825	32.2
Total	1,885	2,405	27.6
Total direct program spending	3,886	4,244	9.2
<b>Total program expenditures</b>	9,226	10,029	8.7
<b>Public debt charges</b>	3,389	2,875	-15.2
<b>Total budgetary expenditures</b>	12,615	12,904	2.3
Memorandum item:			
Total transfers	6,762	7,046	4.2

# The Fiscal Monitor

Table 2

## Budgetary revenues

	April		Change
	2001	2002	
	(\$ millions)		(%)
<b>Income taxes</b>			
Personal income tax	8,539	6,436	-24.6
Corporate income tax	2,146	1,492	-30.5
Other income tax revenue	364	332	-8.8
Total income tax	11,049	8,260	-25.2
<b>Employment insurance premium revenues</b>	1,809	1,760	-2.7
<b>Excise taxes and duties</b>			
Goods and services tax	1,703	2,151	26.3
Customs import duties	169	257	52.1
Sales and excise taxes	645	705	9.3
Total excise taxes and duties	2,517	3,113	23.7
<b>Total tax revenues</b>	15,375	13,133	-14.6
<b>Non-tax revenues</b>	751	643	-14.4
<b>Total budgetary revenues</b>	16,126	13,776	-14.6

employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.6 billion in April 2002, up from a net requirement of \$4.0 billion in April 2001. The higher requirement is primarily due to timing factors affecting the other transactions component.

With a budgetary surplus of \$0.9 billion and a net requirement of \$5.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$4.7 billion in April 2002, compared to a requirement of \$0.4 billion in April 2001.

## Net financial requirement of \$5.3 billion in April 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of \$0.7 billion in April 2002, compared to a net source of \$0.2 billion in April 2001.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2002	April 30, 2002	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	41,014	39,486	-1,528
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	127,164	-45
Canada Pension Plan (net of securities)	6,756	6,627	-129
Other pension and other accounts	7,454	7,416	-38
Total pension and other accounts	141,419	141,207	-212
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	288,665	-5,200
Treasury bills	94,200	98,500	4,300
Canada Savings Bonds	23,759	23,702	-57
Other	3,390	3,390	0
Subtotal	415,214	414,257	-957
Payable in foreign currencies	27,033	27,050	17
Total unmaturred debt	442,247	441,307	-940
Total interest-bearing debt	583,666	582,514	-1,152
Total liabilities	624,680	622,000	-2,680
<b>Assets</b>			
Cash and accounts receivable	14,796	13,635	-1,161
Foreign exchange accounts	52,119	51,451	-668
Loans, investments and advances (net of allowances)	16,387	16,408	21
Total assets	83,302	81,494	-1,808
<b>Accumulated deficit (net public debt)<sup>1</sup></b>	<b>541,378</b>	<b>540,506</b>	<b>-872</b>

<sup>1</sup> Assumes a fiscal balance of \$6 billion for 2001-02.

With a budgetary surplus of \$0.9 billion, a net requirement of \$5.6 billion from non-budgetary transactions and a net requirement of \$0.7 billion from foreign exchange transactions, there was a net financial requirement of \$5.3 billion in April 2002, compared to a net requirement of \$0.3 billion in April 2001.

### Net borrowings down slightly

This financial requirement was financed by a drawdown in cash balances of \$6.3 billion, which also resulted in a decrease of \$0.9 billion in net borrowings. Cash balances at the end of April 2002 stood at \$13.0 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### May 2002: budgetary deficit of \$116 million

There was a budgetary deficit of \$116 million in May 2002, compared to a surplus of \$3.2 billion in May 2001.<sup>1</sup> This year-over-year deterioration in the budgetary balance was primarily attributable to the impact of the global economic slowdown in 2001, particularly its effect on corporate profits and the stock market, which caused a sharp increase in both personal and corporate income tax refunds and significantly lower final personal income tax settlement payments with respect to the 2001 tax year. Budgetary revenues declined \$3.0 billion in May 2002 compared to May 2001. Total expenditures were up \$0.4 billion, as an increase in program spending was partially offset by lower public debt charges.

### April and May 2002: budgetary surplus of \$755 million

The budgetary surplus was estimated at \$755 million for the April and May 2002 period, compared to the surplus of \$6.8 billion reported in the same period of 2001-02. The decline in the year-over-year surplus was largely attributable to developments affecting final income tax payments with respect to the 2001 tax year, as noted above. This decline was expected given the extraordinary net capital gains realizations in the 2000 tax year, which resulted in record high final income tax payments in April and May 2001, and the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002.

<sup>1</sup> Budgetary revenues over the April to June period last year were affected by systems problems relating to personal income tax and goods and services tax refunds. This had the effect of overstating the April 2001 budgetary surplus and understating the surpluses in May and June. This will have no impact on the final results for the year as a whole. The May 2001 surplus was originally estimated at \$2.9 billion.

### May 2002: budgetary results

Budgetary revenues declined \$3.0 billion, or 18.8 per cent, in May 2002, on a year-over-year basis. All components except excise taxes and duties were lower.

- Personal income tax revenues declined \$2.3 billion, or 29.6 per cent, as higher refunds and lower final settlement payments related to the 2001 tax year more than offset an increase

in tax deductions from employment income. This decline primarily reflects the drop in net capital gains realizations in 2001, following a year of extraordinary gains in 2000.

- Corporate income tax revenues were down \$0.7 billion, or 30.3 per cent, primarily due to higher refunds relating to the overpayment of taxes in the past. This decline reflects the weakness in corporate profits in 2001.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	May		April to May	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,798	12,829	31,924	26,604
Program spending	-9,144	-9,977	-18,370	-20,006
Operating surplus	6,654	2,852	13,554	6,598
Public debt charges	-3,405	-2,968	-6,794	-5,843
Budgetary balance (deficit/surplus)	3,249	-116	6,760	755
<b>Non-budgetary transactions</b>	1,489	856	-2,462	-4,699
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,738	740	4,298	-3,944
<b>Foreign exchange transactions</b>	-295	20	-137	-648
<b>Net financial balance</b>	4,443	760	4,161	-4,592
<b>Net change in borrowings</b>	-883	6,438	-813	5,498
<b>Net change in cash balances</b>	3,560	7,198	3,348	906
<b>Cash balance at end of period</b>			16,530	12,856

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Estimates for April and May 2001 have been revised from those previously published.

- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up \$0.1 billion, or 4.6 per cent. Most of the increase reflects higher excise taxes and duties on tobacco products.
- Non-tax revenues declined, primarily reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$0.8 billion, or 9.1 per cent. Among the major components:

- Transfers to persons were up 10.6 per cent. Elderly benefits increased 5.8 per cent, reflecting an increase in the number of individuals receiving benefits and higher

average benefits, which are indexed to inflation. The increase of 22.2 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.

- Transfers to other levels of government were up 6.1 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfers. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03. The increase in fiscal transfers was attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 9.8 per cent. Subsidies and other transfers declined 15.6 per cent, while payments to

# The Fiscal Monitor

Table 2

## Budgetary revenues

	May		Change	April to May		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,639	5,376	-29.6	16,178	11,810	-27.0
Corporate income tax	2,373	1,654	-30.3	4,519	3,146	-30.4
Other income tax revenue	305	232	-23.9	670	564	-15.8
Total income tax	10,317	7,262	-29.6	21,367	15,520	-27.4
<b>Employment insurance premium revenues</b>	1,770	1,751	-1.1	3,579	3,511	-1.9
<b>Excise taxes and duties</b>						
Goods and services tax	2,127	2,181	2.5	3,830	4,332	13.1
Customs import duties	226	231	2.2	395	488	23.5
Sales and excise taxes	736	819	11.3	1,382	1,524	10.3
Total excise taxes and duties	3,089	3,231	4.6	5,607	6,344	13.1
<b>Total tax revenues</b>	15,176	12,244	-19.3	30,553	25,375	-16.9
<b>Non-tax revenues</b>	622	585	-5.8	1,371	1,229	-10.4
<b>Total budgetary revenues</b>	15,798	12,829	-18.8	31,924	26,604	-16.7

Crown corporations and operating and capital expenditures were up strongly. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined 12.8 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

### April and May 2002: budgetary results

Over the first two months of fiscal year 2002-03, the budgetary surplus was estimated at \$755 million, down \$6.0 billion from the surplus of \$6.8 billion reported in the same period of 2001-02. This decline, which was expected, reflected lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Budgetary revenues were down \$5.3 billion, or 16.7 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined \$4.4 billion, or 27.0 per cent. Virtually all of this decline was attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in economic activity in 2001 and its effect on the stock market and net capital gains realizations. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	May		Change	April to May		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,091	2,212	5.8	4,154	4,377	5.4
Employment insurance benefits	875	1,069	22.2	1,988	2,471	24.3
Total	2,966	3,281	10.6	6,142	6,848	11.5
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	2,883	3,100	7.5
Fiscal transfers	1,117	1,164	4.2	2,041	2,040	0.0
Alternative Payments for Standing Programs	-200	-210	5.0	-400	-420	5.0
Total	2,359	2,504	6.1	4,524	4,720	4.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	192	40	-79.2	230	57	-75.2
Foreign Affairs	62	86	38.7	184	125	-32.1
Health	188	132	-29.8	198	242	22.2
Human Resources Development	127	111	-12.6	152	181	19.1
Indian and Northern Development	225	253	12.4	916	862	-5.9
Industry and Regional Development	40	59	47.5	152	168	10.5
Veterans Affairs	124	138	11.3	242	281	16.1
Other	181	142	-21.5	490	302	-38.4
Total	1,139	961	-15.6	2,564	2,218	-13.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	40	76	90.0	240	258	7.5
Canada Mortgage and Housing Corporation	158	159	0.6	316	330	4.4
Other	106	134	26.4	329	360	9.4
Total	304	369	21.4	885	948	7.1
Operating and capital expenditures						
Defence	502	796	58.6	1,007	1,377	36.7
All other departmental expenditures	1,874	2,066	10.2	3,248	3,895	19.9
Total	2,376	2,862	20.5	4,255	5,272	23.9
Total direct program spending	3,819	4,192	9.8	7,704	8,438	9.5
<b>Total program expenditures</b>	9,144	9,977	9.1	18,370	20,006	8.9
<b>Public debt charges</b>	3,405	2,968	-12.8	6,794	5,843	-14.0
<b>Total budgetary expenditures</b>	12,549	12,945	3.2	25,164	25,849	2.7
Memorandum item:						
Total transfers	6,464	6,746	4.4	13,230	13,786	4.2



- Corporate income tax revenues were down \$1.4 billion, or 30.4 per cent. This was primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by \$0.7 billion, or 13.1 per cent, primarily reflecting higher customs import duties and the increases in tobacco excise taxes and duties.
- Non-tax revenues were down 10.4 per cent.

Program spending increased by \$1.6 billion, or 8.9 per cent, in the April and May 2002 period, compared to the same period last year.

- Transfers to persons were up 11.5 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.3 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 9.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by \$1.0 billion, or 14.0 per cent, due to the lower average effective interest rate on the stock of debt.

## **Financial requirement of \$3.9 billion (excluding foreign exchange transactions) for April and May 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.7 billion in the first two months of 2002-03, compared to a net requirement of \$2.5 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$0.8 billion and a net requirement of \$4.7 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$3.9 billion in the April and May 2002 period, compared to a financial source of \$4.3 billion in the same period in 2001-02.

## **Net financial requirement of \$4.6 billion for April and May 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign-currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign-currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of \$0.6 billion in the first two months of 2002-03, compared to a net requirement of \$0.1 billion in the same period in 2001-02.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	May		April to May	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	3,249	-116	6,760	755
<b>Loans, investments and advances</b>				
Crown corporations	48	2	180	15
Other	-43	21	-57	30
Total	5	23	123	45
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	627	401	227	272
Superannuation accounts	-241	-43	-193	-89
Other	31	-15	51	-52
Total	417	343	85	131
<b>Other transactions</b>	1,067	490	-2,670	-4,875
<b>Total non-budgetary transactions</b>	1,489	856	-2,462	-4,699
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,738	740	4,298	-3,944
<b>Foreign exchange transactions</b>	-295	20	-137	-648
<b>Net financial balance</b>	4,443	760	4,161	-4,592

Table 5

## Net financial balance and net borrowings

	May		April to May	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Net financial balance</b>	4,443	760	4,161	-4,592
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-225	3,045	1,146	-2,155
Canada Savings Bonds	-79	-94	-80	-151
Treasury bills	-300	3,700	-1,000	8,000
Other		-2		-2
Total	-604	6,649	66	5,692
Payable in foreign currencies				
Marketable bonds	-1,576	0	-1,576	0
Notes and loans				
Canada bills	1,360	-211	870	-194
Canada notes	-63	0	-173	0
Total	-279	-211	-879	-194
<b>Net change in borrowings</b>	-883	6,438	-813	5,498
<b>Change in cash balance</b>	3,560	7,198	3,348	906

Table 6

## Condensed statement of assets and liabilities<sup>1</sup>

	March 31, 2002	May 31, 2002	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	41,014	36,867	-4,147
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	127,120	-89
Canada Pension Plan (net of securities)	6,756	7,028	272
Other pension and other accounts	7,454	7,402	-52
Total pension and other accounts	141,419	141,550	131
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	291,710	-2,155
Treasury bills	94,200	102,200	8,000
Canada Savings Bonds	23,759	23,608	-151
Other	3,390	3,388	-2
Subtotal	415,214	420,906	5,692
Payable in foreign currencies	27,033	26,839	-194
Total unmaturred debt	442,247	447,745	5,498
Total interest-bearing debt	583,666	589,295	5,629
Total liabilities	624,680	626,162	1,482
<b>Assets</b>			
Cash and accounts receivable	14,796	16,430	1,634
Foreign exchange accounts	52,119	52,767	648
Loans, investments and advances (net of allowances)	16,387	16,342	-45
Total assets	83,302	85,539	2,237
<b>Accumulated deficit (net public debt)</b>	<b>541,378</b>	<b>540,623</b>	<b>-755</b>

<sup>1</sup> Assumes a fiscal balance of \$6 billion for 2001-02.

With a budgetary surplus of \$0.8 billion, a net requirement of \$4.7 billion from non-budgetary transactions and a net requirement of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$4.6 billion in the April and May 2002 period, compared to a net source of \$4.2 billion in the same period in 2001-02.

## **Net borrowings up \$5.5 billion for April and May 2002**

To finance this net financial requirement, the Government increased its holding of market debt by \$5.5 billion to the end of May 2002 and raised its cash balances by \$0.9 billion to \$12.9 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### June 2002: budgetary surplus of \$4.0 billion

There was a budgetary surplus of \$4.0 billion in June 2002, compared to a surplus of \$2.8 billion in June 2001.<sup>1</sup> Since 1996-97 large surpluses have been recorded in the month of June, primarily reflecting the inclusion of quarterly personal income tax instalment payments. Most of the year-over-year improvement in the budgetary balance is attributable to higher budgetary revenues, in part reflecting strong employment gains since the beginning of the year. In addition, there were one-time technical factors that impacted positively on revenues in June 2002, including adjustments pertaining to previous months and timing of receipts.

### April to June 2002: budgetary surplus of \$4.8 billion

The budgetary surplus is estimated at \$4.8 billion for the April to June 2002 period, compared to a surplus of \$9.6 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting final personal income tax payments with respect to the 2001 tax year. This decline was expected given the extraordinary net capital gains realizations in the 2000 tax year, which resulted in record high final income tax payments in April and May 2001, and the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002.

<sup>1</sup> Budgetary revenues over the April to June period last year were affected by systems problems relating to personal income tax and goods and services tax (GST) refunds. This had the effect of overstating the April 2001 budgetary surplus and understating the surpluses in May and June. This will have no impact on the final results for the year as a whole. The June 2001 surplus was originally estimated at \$2.5 billion.

### June 2002: budgetary results

Budgetary revenues increased \$1.3 billion, or 8.3 per cent, in June 2002 on a year-over-year basis.

- Personal income tax revenues increased \$0.9 billion, or 11.8 per cent, primarily reflecting higher tax deductions from employment income, attributable to the strong growth in employment since the beginning of the year. In addition, the timing of receipts and adjustments pertaining to previous periods contributed to the gain in June 2002.
- Corporate income tax revenues were down \$0.1 billion, or 5.1 per cent, attributable to higher refunds relating to the overpayment of taxes in the past.
- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	June		April to June	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,349	16,627	47,274	43,232
Program spending	-9,446	-9,569	-27,816	-29,599
Operating surplus	5,903	7,058	19,458	13,633
Public debt charges	-3,111	-3,022	-9,904	-8,865
Budgetary balance (deficit/surplus)	2,792	4,036	9,554	4,768
<b>Non-budgetary transactions</b>	-7,887	-7,887	-10,348	-12,559
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-5,095	-3,851	-794	-7,791
<b>Foreign exchange transactions</b>	449	-607	312	-1,255
<b>Net financial balance</b>	-4,646	-4,458	-482	-9,046
<b>Net change in borrowings</b>	-8,170	-3,419	-8,983	2,078
<b>Net change in cash balances</b>	-12,816	-7,877	-9,465	-6,968
<b>Cash balance at end of period</b>			3,708	4,979

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Monthly estimates for 2001-02 have been revised from those previously published.

- Excise taxes and duties were up \$0.3 billion, or 10.5 per cent, primarily attributable to a strong gain in GST revenues, reflecting both increases in gross collections and lower refunds.
- Non-tax revenues were up sharply, reflecting the timing of receipts. They were down in May.

On a year-over-year basis, program spending increased by \$0.1 billion, or 1.3 per cent, as lower defence spending and subsidies and other transfers offset much of the increases in the other major components.

- Transfers to persons were up 7.9 per cent. Elderly benefits increased 6.5 per cent, reflecting an increase in the number of individuals receiving benefits and higher average benefits, which are indexed to inflation. The increase of 10.9 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.

- Transfers to other levels of government were up 4.2 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, declined by 4.9 per cent, reflecting lower subsidies and other transfers and defence spending. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined 2.9 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

Table 2

## Budgetary revenues

	June		Change	April to June		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,382	8,250	11.8	23,560	20,062	-14.8
Corporate income tax	2,312	2,194	-5.1	6,832	5,340	-21.8
Other income tax revenue	243	242	-0.4	913	806	-11.7
Total income tax	9,937	10,686	7.5	31,305	26,208	-16.3
<b>Employment insurance premium revenues</b>	1,748	1,729	-1.1	5,327	5,240	-1.6
<b>Excise taxes and duties</b>						
Goods and services tax	1,916	2,177	13.6	5,747	6,508	13.2
Customs import duties	278	314	12.9	673	802	19.2
Sales and excise taxes	794	783	-1.4	2,174	2,285	5.1
Air Travellers Security Charge		28			48	
Total excise taxes and duties	2,988	3,302	10.5	8,594	9,643	12.2
<b>Total tax revenues</b>	14,673	15,717	7.1	45,226	41,091	-9.1
<b>Non-tax revenues</b>	676	910	34.6	2,048	2,141	4.5
<b>Total budgetary revenues</b>	15,349	16,627	8.3	47,274	43,232	-8.6

## April to June 2002: budgetary results

Over the first three months of fiscal year 2002-03, the budgetary surplus was estimated at \$4.8 billion, compared to a surplus of \$9.6 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Budgetary revenues were down \$4.0 billion, or 8.6 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined \$3.5 billion, or 14.8 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. However, it should be

noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down \$1.5 billion, or 21.8 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	June		Change	April to June		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,050	2,184	6.5	6,204	6,562	5.8
Employment insurance benefits	903	1,001	10.9	2,891	3,472	20.1
Total	2,953	3,185	7.9	9,095	10,034	10.3
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	4,325	4,650	7.5
Fiscal transfers	1,057	1,056	-0.1	3,099	3,096	-0.1
Alternative Payments for Standing Programs	-200	-210	5.0	-600	-630	5.0
Total	2,299	2,396	4.2	6,824	7,116	4.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	152	7	-95.4	381	64	-83.2
Foreign Affairs	141	88	-37.6	325	213	-34.5
Health	75	82	9.3	273	324	18.7
Human Resources Development	86	95	10.5	239	275	15.1
Indian and Northern Development	255	300	17.6	1,171	1,163	-0.7
Industry and Regional Development	174	148	-14.9	326	317	-2.8
Veterans Affairs	123	137	11.4	366	418	14.2
Other	196	197	0.5	684	520	-24.0
Total	1,202	1,054	-12.3	3,765	3,294	-12.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	74	-7.5	320	332	3.8
Canada Mortgage and Housing Corporation	158	159	0.6	474	489	3.2
Other	110	116	5.5	439	476	8.4
Total	348	349	0.3	1,233	1,297	5.2
Operating and capital expenditures						
Defence	1,009	730	-27.7	2,018	2,107	4.4
All other departmental expenditures	1,635	1,855	13.5	4,881	5,751	17.8
Total	2,644	2,585	-2.2	6,899	7,858	13.9
Total direct program spending	4,194	3,988	-4.9	11,897	12,449	4.6
<b>Total program expenditures</b>	9,446	9,569	1.3	27,816	29,599	6.4
<b>Public debt charges</b>	3,111	3,022	-2.9	9,904	8,865	-10.5
<b>Total budgetary expenditures</b>	12,557	12,591	0.3	37,720	38,464	2.0
Memorandum item:						
Total transfers	6,454	6,635	2.8	19,684	20,444	3.9



- Excise taxes and duties increased by \$1.0 billion, or 12.2 per cent, primarily reflecting higher GST revenues, customs import duties and the increases in tobacco excise taxes and duties.
- Non-tax revenues were up 4.5 per cent.

Program spending increased by \$1.8 billion, or 6.4 per cent, in the April to June 2002 period, compared to the same period last year.

- Transfers to persons were up 10.3 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.3 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 4.6 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by \$1.0 billion, or 10.5 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

## **Financial requirement of \$7.8 billion (excluding foreign exchange transactions) for April to June 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included

as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$12.6 billion in the first three months of 2002-03, compared to a net requirement of \$10.3 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$4.8 billion and a net requirement of \$12.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$7.8 billion in the April to June 2002 period, compared to a financial requirement of \$0.8 billion in the same period last year.

## **Net financial requirement of \$9.0 billion for April to June 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of \$1.3 billion in the first three months of 2002-03, compared to a net source of \$0.3 billion in the same period in 2001-02.

With a budgetary surplus of \$4.8 billion, a net requirement of \$12.6 billion from non-budgetary transactions and a net requirement of \$1.3 billion from foreign exchange transactions, there was a net financial requirement of \$9.0 billion in the April to June 2002 period, compared to a net requirement of \$0.5 billion in the same period last year.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	June		April to June	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	2,792	4,036	9,554	4,768
<b>Loans, investments and advances</b>				
Crown corporations	52	62	232	77
Other	92	63	33	93
Total	144	125	265	170
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-670	-116	-443	155
Superannuation accounts	-302	-508	-496	-595
Other	-75	-112	-22	-166
Total	-1,047	-736	-961	-606
<b>Other transactions</b>	-6,984	-7,276	-9,652	-12,123
<b>Total non-budgetary transactions</b>	-7,887	-7,887	-10,348	-12,559
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-5,095	-3,851	-794	-7,791
<b>Foreign exchange transactions</b>	449	-607	312	-1,255
<b>Net financial balance</b>	-4,646	-4,458	-482	-9,046

Table 5

## Net financial balance and net borrowings

	June		April to June	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Net financial balance</b>	-4,646	-4,458	-482	-9,046
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-3,187	-3,897	-2,041	-6,053
Canada Savings Bonds	-86	-161	-166	-312
Treasury bills	-3,600	700	-4,600	8,700
Other	-4	-6	-4	-8
Total	-6,877	-3,364	-6,811	2,327
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	0
Notes and loans	-41		-41	
Canada bills	-1,252	-55	-382	-249
Canada notes	0	0	-173	0
Total	-1,293	-55	-2,172	-249
<b>Net change in borrowings</b>	-8,170	-3,419	-8,983	2,078
<b>Change in cash balance</b>	-12,816	-7,877	-9,465	-6,968

Table 6

## Condensed statement of assets and liabilities<sup>1</sup>

	March 31, 2002	June 30, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	41,014	29,206	-11,808
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	126,614	-595
Canada Pension Plan (net of securities)	6,756	6,911	155
Other pension and other accounts	7,454	7,288	-166
Total pension and other accounts	141,419	140,813	-606
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	287,791	-6,074
Treasury bills	94,200	102,740	8,540
Canada Savings Bonds	23,759	23,654	-105
Other	3,390	3,383	-7
Subtotal	415,214	417,568	2,354
Payable in foreign currencies	27,033	26,782	-251
Total unmaturred debt	442,247	444,350	2,103
Total interest-bearing debt	583,666	585,163	1,497
Total liabilities	624,680	614,369	-10,311
<b>Assets</b>			
Cash and accounts receivable	14,796	8,168	-6,628
Foreign exchange accounts	52,119	53,374	1,255
Loans, investments and advances (net of allowances)	16,387	16,217	-170
Total assets	83,302	77,759	-5,543
<b>Accumulated deficit (net public debt)</b>	<b>541,378</b>	<b>536,610</b>	<b>-4,768</b>

<sup>1</sup> Assumes a fiscal balance of \$6 billion for 2001-02.

# The Fiscal Monitor

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## **Net borrowings up \$2.1 billion for April to June 2002**

To finance this net financial requirement, the Government increased its holding of market debt by \$2.1 billion to the end of June 2002 and lowered its cash balances by \$7.0 billion to \$5.0 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### July 2002: budgetary deficit of \$128 million

There was a budgetary deficit of \$128 million in July 2002, compared to a surplus of \$1.5 billion in July 2001.<sup>1</sup> Most of the year-over-year deterioration in the budgetary balance is attributable to higher corporate and personal income tax refunds, reflecting the lagged impact of the weakness in the economy in 2001, and increased program spending. Budgetary revenues declined \$1.1 billion, while program spending increased by \$0.8 billion. Public debt charges declined by \$0.2 billion.

### April to July 2002: budgetary surplus of \$4.6 billion

The budgetary surplus is estimated at \$4.6 billion for the April to July 2002 period, down \$6.4 billion from the surplus of \$11.0 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This decline was expected given the extraordinary net capital gains realizations in the 2000 tax year, which resulted in record high final income tax payments in April and May 2001, and the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002. In addition, corporate income tax refunds are up significantly this year, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

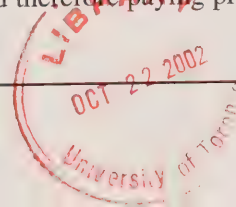
On a year-over-year basis, the deterioration in the surplus over the first four months is attributable to lower budgetary revenues, down \$5.1 billion, and higher program spending, up \$2.6 billion, primarily reflecting the impact of previous budget measures. Public debt charges were down \$1.3 billion due to the decline in the average effective interest rate on interest-bearing debt.

<sup>1</sup> Budgetary revenues in 2001-02 were affected by systems problems relating to personal income tax and goods and services tax (GST) refunds. This had the effect of overstating the April 2001 budgetary surplus and understating the surpluses in other months. This will have no impact on the final results for the year as a whole. The July 2001 surplus was originally estimated at \$0.8 billion.

### July 2002: budgetary results

Budgetary revenues declined \$1.1 billion, or 7.3 per cent, in July 2002 on a year-over-year basis.

- Personal income tax revenues were down \$0.3 billion, or 4.9 per cent, primarily due to higher tax refunds with respect to the 2001 tax year. Partially offsetting this were higher deductions from employment income, attributable to the strong growth in employment since the beginning of the year.
- Corporate income tax revenues were down \$0.9 billion, or 42.6 per cent, due to higher refunds relating to the overpayment of taxes in the past.
- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	July		April to July	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,568	13,509	61,841	56,743
Program spending	-9,741	-10,549	-37,557	-40,148
Operating surplus	4,827	2,960	24,284	16,595
Public debt charges	-3,345	-3,088	-13,250	-11,952
Budgetary balance (deficit/surplus)	1,482	-128	11,034	4,643
<b>Non-budgetary transactions</b>	341	448	-10,009	-12,117
<b>Financial requirements/source</b> (excluding foreign exchange transactions)	1,823	320	1,025	-7,474
<b>Foreign exchange transactions</b>	-443	1,364	-131	109
<b>Net financial balance</b>	1,380	1,684	894	-7,365
<b>Net change in borrowings</b>	-1,589	-3,709	-10,573	-1,629
<b>Net change in cash balances</b>	-209	-2,025	-9,679	-8,994
<b>Cash balance at end of period</b>			3,499	2,955

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Monthly estimates for 2001-02 have been revised from those previously published.

- Excise taxes and duties were up \$0.2 billion, or 5.1 per cent, primarily attributable to a strong gain in GST revenues, reflecting both increases in gross collections and lower refunds.
- Non-tax revenues were down sharply, reflecting the timing of receipts. They were up sharply in June.

On a year-over-year basis, program spending increased by \$0.8 billion, or 8.3 per cent, with increases recorded in all major components.

- Transfers to persons were up 6.5 per cent. Elderly benefits increased 2.0 per cent. This year-over-year increase is somewhat lower than expected, reflecting the timing of payments. The increase of 15.7 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.

- Transfers to other levels of government were up 4.2 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 11.8 per cent, after declining by 4.9 per cent in June. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined 7.4 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

Table 2

## Budgetary revenues

	July		Change	April to July		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,358	6,048	-4.9	29,917	26,110	-12.7
Corporate income tax	2,028	1,164	-42.6	8,859	6,504	-26.6
Other income tax revenue	291	363	24.7	1,203	1,168	-2.9
Total income tax	8,677	7,575	-12.7	39,979	33,782	-15.5
<b>Employment insurance premium revenues</b>	1,654	1,647	-0.4	6,981	6,887	-1.3
<b>Excise taxes and duties</b>						
Goods and services tax	2,364	2,525	6.8	8,111	9,035	11.4
Customs import duties	250	230	-8.0	923	1,032	11.8
Sales and excise taxes	784	781	-0.4	2,959	3,066	3.6
Air Travellers Security Charge		34			82	
Total excise taxes and duties	3,398	3,570	5.1	11,993	13,215	10.2
<b>Total tax revenues</b>	13,729	12,792	-6.8	58,953	53,885	-8.6
<b>Non-tax revenues</b>	839	717	-14.5	2,888	2,859	-1.0
<b>Total budgetary revenues</b>	14,568	13,509	-7.3	61,841	56,743	-8.2

## April to July 2002: budgetary results

Over the first four months of fiscal year 2002-03, the budgetary surplus is estimated at \$4.6 billion, compared to a surplus of \$11.0 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first four months of 2002-03, budgetary revenues were down \$5.1 billion, or 8.2 per cent, on a year-over-year basis.

Among the major components:

- Personal income tax collections declined \$3.8 billion, or 12.7 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. However, it should be noted

that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down \$2.4 billion, or 26.6 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	July		Change	April to July		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,103	2,145	2.0	8,306	8,706	4.8
Employment insurance benefits	1,035	1,198	15.7	3,926	4,671	19.0
Total	3,138	3,343	6.5	12,232	13,377	9.4
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	5,767	6,200	7.5
Fiscal transfers	1,045	1,042	-0.3	4,143	4,137	-0.1
Alternative Payments for Standing Programs	-200	-210	5.0	-800	-841	5.1
Total	2,287	2,382	4.2	9,110	9,496	4.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	41	44	7.3	422	107	-74.6
Foreign Affairs	177	208	17.5	503	421	-16.3
Health	121	175	44.6	394	499	26.6
Human Resources Development	123	96	-22.0	362	371	2.5
Indian and Northern Development	326	305	-6.4	1,496	1,468	-1.9
Industry and Regional Development	104	136	30.8	430	453	5.3
Veterans Affairs	127	142	11.8	493	561	13.8
Other	25	118	372.0	710	641	-9.7
Total	1,044	1,224	17.2	4,810	4,521	-6.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	75	-6.3	400	407	1.8
Canada Mortgage and Housing Corporation	158	153	-3.2	632	642	1.6
Other	136	194	42.6	574	670	16.7
Total	374	422	12.8	1,606	1,719	7.0
Operating and capital expenditures						
Defence	808	911	12.7	2,827	3,020	6.8
All other departmental expenditures	2,090	2,267	8.5	6,972	8,015	15.0
Total	2,898	3,178	9.7	9,799	11,035	12.6
Total direct program spending	4,316	4,824	11.8	16,215	17,275	6.5
<b>Total program expenditures</b>	9,741	10,549	8.3	37,557	40,148	6.9
<b>Public debt charges</b>	3,345	3,096	-7.4	13,250	11,952	-9.8
<b>Total budgetary expenditures</b>	13,086	13,645	4.3	50,807	52,100	2.5
Memorandum item:						
Total transfers	6,469	6,949	7.4	26,152	27,394	4.7



- Excise taxes and duties increased by \$1.2 billion, or 10.2 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, and the introduction of the Air Travellers Security Charge.
- Non-tax revenues were down 1.0 per cent.

Over the first four months of 2002-03, program spending increased by \$2.6 billion, or 6.9 per cent, in the April to July 2002 period, compared to the same period last year.

- Transfers to persons were up 9.4 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.2 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by \$1.3 billion, or 9.8 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

## **Financial requirement of \$7.5 billion (excluding foreign exchange transactions) for April to July 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial

assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$12.1 billion in the first four months of 2002-03, compared to a net requirement of \$10.0 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$4.6 billion and a net requirement of \$12.1 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$7.5 billion in the April to July 2002 period, compared to a financial source of \$1.0 billion in the same period last year.

## **Net financial requirement of \$7.4 billion for April to July 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$0.1 billion in the first four months of 2002-03, compared to a net requirement of \$0.1 billion in the same period in 2001-02.

With a budgetary surplus of \$4.6 billion, a net requirement of \$12.1 billion from non-budgetary transactions and a net source of \$0.1 billion from foreign exchange transactions, there was a net financial requirement of \$7.4 billion in the April to July 2002 period, compared to a net source of \$0.9 billion in the same period last year.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	July		April to July	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	1,482	-128	11,034	4,643
<b>Loans, investments and advances</b>				
Crown corporations	-16	7	217	84
Other	-26	-7	7	86
Total	-42	0	224	170
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-418	-759	-861	-603
Superannuation accounts	50	79	-446	-516
Other	77	25	53	-140
Total	-291	-655	-1,254	-1,259
<b>Other transactions</b>	674	1,103	-8,979	-11,028
<b>Total non-budgetary transactions</b>	341	448	-10,009	-12,117
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,823	320	1,025	-7,474
<b>Foreign exchange transactions</b>	-443	1,364	-131	109
<b>Net financial balance</b>	1,380	1,684	894	-7,365

Table 5

## Net financial balance and net borrowings

	July		April to July	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	1,380	1,684	894	-7,365
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	400	-29	-1,641	-6,081
Canada Savings Bonds	-70	-91	-236	-403
Treasury bills	-1,500	-1,850	-6,100	6,850
Other	0	0	-4	-8
Total	-1,170	-1,970	-7,981	358
Payable in foreign currencies				
Marketable bonds	0	-1,594	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-419	-144	-802	-393
Canada notes	0	0	-173	0
Total	-419	-1,738	-2,592	-1,987
<b>Net change in borrowings</b>	-1,589	-3,708	-10,573	-1,629
<b>Change in cash balance</b>	-209	-2,024	-9,679	-8,994

Table 6

## Condensed statement of assets and liabilities<sup>1</sup>

	March 31, 2002	July 31, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	41,014	30,301	-10,713
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	126,693	-516
Canada Pension Plan (net of securities)	6,756	6,153	-603
Other pension and other accounts	7,454	7,314	-140
Total pension and other accounts	141,419	140,160	-1,259
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	287,763	-6,102
Treasury bills	94,200	100,890	6,690
Canada Savings Bonds	23,759	23,563	-196
Other	3,390	3,383	-7
Subtotal	415,214	415,599	385
Payable in foreign currencies	27,033	25,044	-1,989
Total unmaturred debt	442,247	440,643	-1,604
Total interest-bearing debt	583,666	580,803	-2,863
Total liabilities	624,680	611,104	-13,576
<b>Assets</b>			
Cash and accounts receivable	14,796	6,142	-8,654
Foreign exchange accounts	52,119	52,010	-109
Loans, investments and advances (net of allowances)	16,387	16,217	-170
Total assets	83,302	74,369	-8,933
<b>Accumulated deficit (net public debt)</b>	<b>541,378</b>	<b>536,735</b>	<b>-4,643</b>

<sup>1</sup> Assumes a fiscal balance of \$6 billion for 2001-02.

# The Fiscal Monitor

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## **Net borrowings down \$1.6 billion for April to July 2002**

To finance this net financial requirement, the Government reduced its cash balances by \$9.0 billion, which also allowed it to reduce its holding of market debt by \$1.6 billion to the end of July 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### August 2002: budgetary deficit of \$4 million

There was a budgetary deficit of \$4 million in August 2002, compared to a surplus of \$388 million in August 2001. The year-over-year deterioration in the budgetary balance was attributable to lower budgetary revenues (down \$472 million), primarily due to higher corporate income tax refunds, and higher program spending (up \$495 million). Partially offsetting the impact of these factors were lower public debt charges (down \$575 million).

### April to August 2002: budgetary surplus of \$4.6 billion

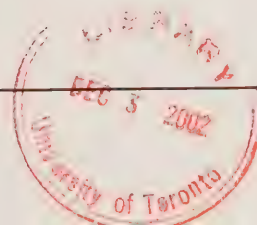
The budgetary surplus is estimated at \$4.6 billion for the April to August 2002 period, down \$6.8 billion from the surplus of \$11.4 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

On a year-over-year basis, the deterioration in the surplus over the first five months was attributable to lower budgetary revenues, down \$5.6 billion, and higher program spending, up \$3.1 billion, primarily reflecting the impact of previous budget measures. Public debt charges were down \$1.9 billion due to the decline in the average effective interest rate on interest-bearing debt.

### August 2002: budgetary results

Budgetary revenues declined \$472 million, or 3.5 per cent, in August 2002 on a year-over-year basis.

- Personal income tax revenues were down \$116 million, or 2.0 per cent, primarily due to higher tax refunds with respect to the 2001 tax year. Despite the strong growth in employment since the beginning of the year, monthly deductions from employment income were virtually unchanged.
- Corporate income tax revenues were down \$0.9 billion, or 45.8 per cent, primarily due to higher refunds relating to the application of losses to taxes paid in previous years. In addition, monthly instalments for the current year's tax liability are somewhat lower.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums is offsetting the effect of the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).
- Excise taxes and duties were up strongly (\$570 million or 18.1 per cent). However, most of the increase was attributable to delays in the processing of goods and services tax (GST)



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	August		April to August	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,297	12,825	75,137	69,567
Program spending	-9,556	-10,051	-47,112	-50,201
Operating surplus	3,741	2,774	28,025	19,366
Public debt charges	-3,353	-2,778	-16,603	-14,730
Budgetary balance (deficit/surplus)	388	-4	11,422	4,636
<b>Non-budgetary transactions</b>	463	-83	-9,548	-12,200
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	851	-87	1,874	-7,564
<b>Foreign exchange transactions</b>	-1,022	-682	-1,153	-573
<b>Net financial balance</b>	-171	-769	721	-8,137
<b>Net change in borrowings</b>	5,767	5,743	-4,806	4,115
<b>Net change in cash balances</b>	5,596	4,974	-4,085	-4,022
<b>Cash balance at end of period</b>			9,097	7,927

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Monthly estimates for 2001-02 have been revised from those previously published.

refunds, which should be corrected in future months, thereby bringing the overall growth in net GST revenues more in line with its tax base – consumer expenditures.

- Non-tax revenues were down, reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$495 million, or 5.2 per cent, with increases recorded in all major components.

- Transfers to persons were up 3.7 per cent. Elderly benefits increased 5.2 per cent while EI benefits were up marginally, the latter reflecting the timing of payments. A larger increase in EI benefits was expected given the increase in the number of beneficiaries and the impact of previously enacted program enhancements.

- Transfers to other levels of government were up 4.2 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 6.8 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over-year basis, declined \$575 million, or 17.1 per cent. This decline reflects both amortization adjustments relating to previous periods and a decrease in the average effective interest rate. The stock of interest-bearing debt was slightly higher.

Table 2

## Budgetary revenues

	August		Change	April to August		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,758	5,642	-2.0	35,675	31,752	-11.0
Corporate income tax	1,972	1,069	-45.8	10,831	7,573	-30.1
Other income tax revenue	258	264	2.3	1,462	1,432	-2.1
Total income tax	7,988	6,975	-12.7	47,968	40,757	-15.0
<b>Employment insurance premium revenues</b>	1,492	1,516	1.6	8,473	8,402	-0.8
<b>Excise taxes and duties</b>						
Goods and services tax	1,997	2,522	26.3	10,109	11,557	14.3
Customs import duties	281	306	8.9	1,204	1,338	11.1
Sales and excise taxes	864	848	-1.9	3,823	3,916	2.4
Air Travellers Security Charge		36			119	
Total excise taxes and duties	3,142	3,712	18.1	15,136	16,930	11.9
<b>Total tax revenues</b>	12,622	12,203	-3.3	71,577	66,089	-7.7
<b>Non-tax revenues</b>	675	622	-7.9	3,560	3,478	-2.3
<b>Total budgetary revenues</b>	13,297	12,825	-3.5	75,137	69,567	-7.4

## April to August 2002: budgetary results

Over the first five months of fiscal year 2002-03, the budgetary surplus was estimated at \$4.6 billion, compared to a surplus of \$11.4 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first five months of 2002-03, budgetary revenues were down \$5.6 billion, or 7.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined \$3.9 billion, or 11.0 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. However, it should be noted

that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down \$3.3 billion, or 30.1 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	August		Change	April to August		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,074	2,182	5.2	10,380	10,888	4.9
Employment insurance benefits	1,004	1,010	0.6	4,929	5,680	15.2
Total	3,078	3,192	3.7	15,309	16,568	8.2
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	7,208	7,750	7.5
Fiscal transfers	1,045	1,042	-0.3	5,190	5,180	-0.2
Alternative Payments for Standing Programs	-200	-210	5.0	-1,000	-1,051	5.1
Total	2,287	2,382	4.2	11,398	11,879	4.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	22	78	254.5	445	185	-58.4
Foreign Affairs	23	101	339.1	525	523	-0.4
Health	76	61	-19.7	470	560	19.1
Human Resources Development	111	146	31.5	473	517	9.3
Indian and Northern Development	284	302	6.3	1,780	1,770	-0.6
Industry and Regional Development	166	165	-0.6	595	618	3.9
Veterans Affairs	127	139	9.4	620	699	12.7
Other	132	187	41.7	843	828	-1.8
Total	941	1,179	25.3	5,751	5,700	-0.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	85	75	-11.8	485	482	-0.6
Canada Mortgage and Housing Corporation	158	149	-5.7	790	791	0.1
Other	130	126	-3.1	705	797	13.0
Total	373	350	-6.2	1,980	2,070	4.5
Operating and capital expenditures						
Defence	669	761	13.8	3,496	3,780	8.1
All other departmental expenditures	2,208	2,187	-1.0	9,178	10,204	11.2
Total	2,877	2,948	2.5	12,674	13,984	10.3
Total direct program spending	4,191	4,477	6.8	20,405	21,754	6.6
<b>Total program expenditures</b>	9,556	10,051	5.2	47,112	50,201	6.6
<b>Public debt charges</b>	3,353	2,778	-17.1	16,603	14,730	-11.3
<b>Total budgetary expenditures</b>	12,909	12,829	-0.6	63,715	64,931	1.9
Memorandum item:						
Total transfers	6,306	6,753	7.1	32,458	34,147	5.2



- Excise taxes and duties increased by \$1.8 billion, or 11.9 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, and the introduction of the Air Travellers Security Charge. As noted above, part of this increase was attributable to delays in the processing of GST refunds.
- Non-tax revenues were down 2.3 per cent.

Program spending increased by \$3.1 billion, or 6.6 per cent, in the April to August 2002 period, compared to the same period last year.

- Transfers to persons were up 8.2 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.2 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.6 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments and the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$1.9 billion, or 11.3 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

## **Financial requirement of \$7.6 billion (excluding foreign exchange transactions) for April to August 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out.

Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$12.2 billion in the first five months of 2002-03, compared to a net requirement of \$9.5 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$4.6 billion and a net requirement of \$12.2 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$7.6 billion in the April to August 2002 period, compared to a financial source of \$1.9 billion in the same period last year.

## **Net financial requirement of \$8.1 billion for April to August 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of \$0.6 billion in the first five months of 2002-03, compared to a net requirement of \$1.2 billion in the same period in 2001-02.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	August		April to August	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	388	-4	11,422	4,636
<b>Loans, investments and advances</b>				
Crown corporations	31	12	248	95
Other	15	60	22	148
<b>Total</b>	<b>46</b>	<b>72</b>	<b>270</b>	<b>243</b>
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-334	-216	-1,196	-820
Superannuation accounts	-22	146	-466	-370
Other	-15	12	39	-128
<b>Total</b>	<b>-371</b>	<b>-58</b>	<b>-1,623</b>	<b>-1,318</b>
<b>Other transactions</b>	<b>788</b>	<b>-97</b>	<b>-8,195</b>	<b>-11,125</b>
<b>Total non-budgetary transactions</b>	<b>463</b>	<b>-83</b>	<b>-9,548</b>	<b>-12,200</b>
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	<b>851</b>	<b>-87</b>	<b>1,874</b>	<b>-7,564</b>
<b>Foreign exchange transactions</b>	<b>-1,022</b>	<b>-682</b>	<b>-1,153</b>	<b>-573</b>
<b>Net financial balance</b>	<b>-171</b>	<b>-769</b>	<b>721</b>	<b>-8,137</b>

Table 5

## Net financial balance and net borrowings

	August		April to August	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	<b>-171</b>	<b>-769</b>	<b>721</b>	<b>-8,137</b>
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	4,350	5,214	2,709	-867
Canada Savings Bonds	-75	-76	-311	-478
Treasury bills	1,700	600	-4,400	7,450
Other	-1	0	-6	-8
<b>Total</b>	<b>5,974</b>	<b>5,738</b>	<b>-2,008</b>	<b>6,097</b>
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-207	5	-1,008	-388
Canada notes	0	0	-173	0
<b>Total</b>	<b>-207</b>	<b>5</b>	<b>-2,798</b>	<b>-1,982</b>
<b>Net change in borrowings</b>	<b>5,767</b>	<b>5,743</b>	<b>-4,806</b>	<b>4,115</b>
<b>Change in cash balance</b>	<b>5,596</b>	<b>4,974</b>	<b>-4,085</b>	<b>-4,022</b>

Table 6

## Condensed statement of assets and liabilities

	March 31, 2002	August 31, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,679	29,869	-10,810
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,551	-370
Canada Pension Plan (net of securities)	6,770	5,950	-820
Other pension and other accounts	7,469	7,341	-128
Total pension and other accounts	141,160	139,842	-1,318
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	292,955	-888
Treasury bills	94,039	101,329	7,290
Canada Savings Bonds	23,966	23,695	-271
Other	3,391	3,384	-7
Subtotal	415,239	421,363	6,124
Payable in foreign currencies	27,032	25,048	-1,984
Total unmaturred debt	442,271	446,411	4,140
Total interest-bearing debt	583,431	586,253	2,822
Total liabilities	624,110	616,122	-7,988
<b>Assets</b>			
Cash and accounts receivable	16,829	13,147	-3,682
Foreign exchange accounts	52,046	52,619	573
Loans, investments and advances (net of allowances)	18,746	18,503	-243
Total assets	87,621	84,269	-3,352
<b>Accumulated deficit (net public debt)</b>	536,489	531,853	-4,636

With a budgetary surplus of \$4.6 billion, a net requirement of \$12.2 billion from non-budgetary transactions and a net requirement of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$8.1 billion in the April to August 2002 period, compared to a net source of \$0.7 billion in the same period last year.

## **Net borrowings up \$4.1 billion for April to August 2002**

To finance this net financial requirement of \$8.1 billion, the Government reduced its cash balances by \$4.0 billion and increased its holding of market debt by \$4.1 billion to the end of August 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2002: budgetary surplus of \$3.1 billion

There was a budgetary surplus of \$3.1 billion in September 2002, compared to a surplus of \$2.8 billion in September 2001. Large surpluses have traditionally been recorded in the month of September, primarily reflecting the inclusion of quarterly personal income tax instalment payments. However, the current results are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. Since GST refunds traditionally closely mirror developments in gross collections, net GST revenues, and hence the budgetary surplus, may be somewhat overstated in the year-to-date results.

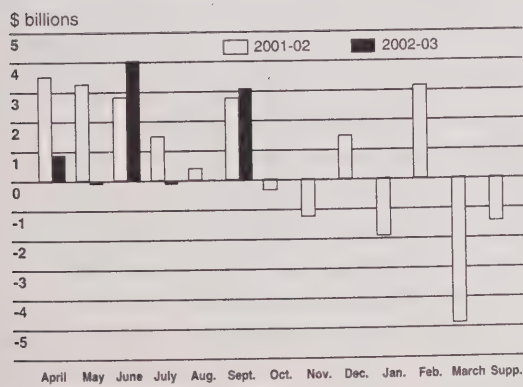
Budgetary revenues were up \$1.0 billion on a year-over-year basis, with virtually all of the improvement attributable to higher GST revenues. Program spending was up \$0.9 billion, while public debt charges declined \$0.3 billion.

### April to September 2002: budgetary surplus of \$7.8 billion

The budgetary surplus is estimated at \$7.8 billion for the April to September 2002 period, down \$6.4 billion from the surplus of \$14.2 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

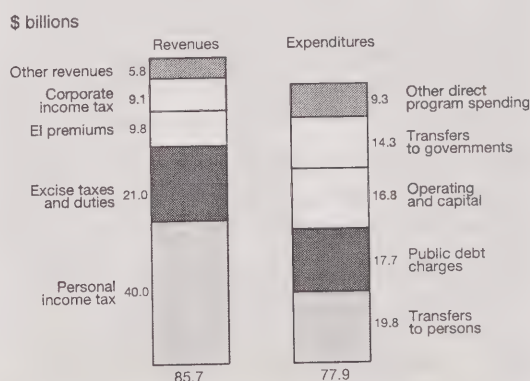
It is expected that over the balance of the year, GST refunds will more closely reflect with gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base. Taking this into account, the results to date are consistent with the estimated budgetary surplus for the year as a whole of \$4.0 billion presented in the October 30 *Economic and Fiscal Update*.

## Monthly surplus and deficit



## Revenues and expenditures

(April to September 2002)



Department of Finance  
Canada

Ministère des Finances  
Canada

Canada

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	September		April to September	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,117	16,131	90,253	85,696
Program spending	-9,168	-10,061	-56,278	-60,261
Operating surplus	5,949	6,070	33,975	25,435
Public debt charges	-3,198	-2,935	-19,801	-17,665
Budgetary balance (deficit/surplus)	2,751	3,135	14,174	7,770
<b>Non-budgetary transactions</b>	-458	-1,390	-9,999	-13,588
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,293	1,745	4,175	-5,818
<b>Foreign exchange transactions</b>	1,652	1,271	499	698
<b>Net financial balance</b>	3,945	3,016	4,674	-5,120
<b>Net change in borrowings</b>	-9,449	-7,018	-14,254	-2,904
<b>Net change in cash balances</b>	-5,504	-4,002	-9,580	-8,024
<b>Cash balance at end of period</b>			3,595	3,924

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for 2001-02 have been revised from those previously published.

## September 2002: budgetary results

On a year-over-year basis, the budgetary surplus increased by \$0.4 billion to \$3.1 billion in September 2002. Budgetary revenues increased \$1.0 billion, or 6.7 per cent, in September 2002 on a year-over-year basis, with virtually all of the increase attributable to higher GST revenues.

- Personal income tax revenues were down \$0.1 billion, or 1.3 per cent, primarily due to lower tax remittances from quarterly filers, which more than offset higher monthly deductions from employment income, reflecting the strong growth in employment.
- Corporate income tax revenues were up slightly, as higher instalment payments were largely offset by higher refunds.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums is offsetting the effect of the

decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).

- Excise taxes and duties were up strongly (\$1.0 billion or 32.7 per cent). Most of this increase was due to higher GST revenues, up \$0.9 billion or 44.6 per cent. This was due to both higher gross collections and unexpectedly lower refunds.
- Non-tax revenues were up, reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$0.9 billion, or 9.7 per cent, with increases recorded in all major components.

- Transfers to persons were up 6.3 per cent. Elderly benefits increased 2.4 per cent while EI benefits were up 14.8 per cent. Both components were affected by the timing of payments between August and September.

Table 2

## Budgetary revenues

	September		Change	April to September		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	8,342	8,233	-1.3	44,017	39,985	-9.2
Corporate income tax	1,541	1,563	1.4	12,372	9,136	-26.2
Other income tax revenue	226	221	-2.2	1,688	1,652	-2.1
Total income tax	10,109	10,017	-0.9	58,077	50,773	-12.6
<b>Employment insurance premium revenues</b>	1,342	1,374	2.4	9,815	9,776	-0.4
<b>Excise taxes and duties</b>						
Goods and services tax	1,990	2,877	44.6	12,098	14,432	19.3
Customs import duties	243	280	15.2	1,447	1,618	11.8
Sales and excise taxes	819	861	5.1	4,642	4,776	2.9
Air Travellers Security Charge		32			151	
Total excise taxes and duties	3,052	4,050	32.7	18,187	20,977	15.3
<b>Total tax revenues</b>	14,503	15,441	6.5	86,079	81,526	-5.3
<b>Non-tax revenues</b>	614	690	12.4	4,174	4,170	-0.1
<b>Total budgetary revenues</b>	15,117	16,131	6.7	90,253	85,696	-5.0

Last month the year-over-year increase in elderly benefits was higher than expected, while that for EI benefits was considerably lower than expected.

- Transfers to other levels of government were up 4.0 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 16.0 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined \$0.3 billion, or 8.2 per cent, due to a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

## April to September 2002: budgetary results

Over the first six months of fiscal year 2002-03, the budgetary surplus was estimated at \$7.8 billion, compared to a surplus of \$14.2 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first six months of 2002-03, budgetary revenues were down \$4.6 billion, or 5.0 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$4.0 billion, or 9.2 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	September		Change	April to September		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,121	2,171	2.4	12,501	13,059	4.5
Employment insurance benefits	967	1,110	14.8	5,897	6,790	15.1
Total	3,088	3,281	6.3	18,398	19,849	7.9
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	8,650	9,300	7.5
Fiscal transfers	1,046	1,040	-0.6	6,236	6,220	-0.3
Alternative Payments for Standing Programs	-200	-210	5.0	-1,200	-1,261	5.1
Total	2,288	2,380	4.0	13,686	14,259	4.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	19	43	126.3	463	229	-50.5
Foreign Affairs	108	97	-10.2	633	620	-2.1
Health	121	157	29.8	591	717	21.3
Human Resources Development	152	122	-19.7	625	639	2.2
Indian and Northern Development	348	269	-22.7	2,129	2,039	-4.2
Industry and Regional Development	12	67	458.3	607	685	12.9
Veterans Affairs	127	142	11.8	747	841	12.6
Other	216	227	5.1	1,055	1,054	-0.1
Total	1,103	1,124	1.9	6,850	6,824	-0.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	91	13.8	565	573	1.4
Canada Mortgage and Housing Corporation	158	195	23.4	948	986	4.0
Other	146	139	-4.8	851	936	10.0
Total	384	425	10.7	2,364	2,495	5.5
Operating and capital expenditures						
Defence	742	908	22.4	4,238	4,688	10.6
All other departmental expenditures	1,563	1,943	24.3	10,742	12,146	13.1
Total	2,305	2,851	23.7	14,980	16,834	12.4
Total direct program spending	3,792	4,400	16.0	24,194	26,153	8.1
<b>Total program expenditures</b>	9,168	10,061	9.7	56,278	60,261	7.1
<b>Public debt charges</b>	3,198	2,935	-8.2	19,801	17,665	-10.8
<b>Total budgetary expenditures</b>	12,366	12,996	5.1	76,079	77,926	2.4
Memorandum item:						
Total transfers	6,479	6,785	4.7	38,934	40,932	5.1



However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down \$3.2 billion, or 26.2 per cent, primarily due to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by \$2.8 billion, or 15.3 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. Revenues from energy-related taxes were lower. GST revenues were up 19.3 per cent, compared to an increase in the applicable tax base – consumer expenditures – of about 4 per cent. The difference in growth rates was largely attributable to a decline in refunds, which appears to be overstating the underlying increase in net GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

- Non-tax revenues were virtually unchanged from the same period last year.

Over the first six months of 2002-03, program spending increased by \$4.0 billion, or 7.1 per cent, compared to the same period last year.

- Transfers to persons were up 7.9 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices.
- Transfers to other levels of government were up 4.2 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 8.1 per cent. Subsidies and other transfers were virtually unchanged. Developments in this component are largely affected by the timing of payments. Payments to Crown corporations were up 5.5 per cent. Departmental and agency operating and capital spending were up 12.4 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.1 billion, or 10.8 per cent, reflecting both a reduction in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

## **Financial requirement of \$5.8 billion (excluding foreign exchange transactions) for April to September 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	September		April to September	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	2,751	3,135	14,174	7,770
<b>Loans, investments and advances</b>				
Crown corporations	106	87	355	182
Other	-528	-565	-507	-417
Total	-422	-478	-152	-235
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	578	140	-618	-679
Superannuation accounts	-199	-830	-663	-1,118
Other	-6	-2	34	-130
Total	373	-692	-1,247	-1,927
<b>Other transactions</b>	-409	-220	-8,600	-11,426
<b>Total non-budgetary transactions</b>	-458	-1,390	-9,999	-13,588
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,293	1,745	4,175	-5,818
<b>Foreign exchange transactions</b>	1,652	1,271	499	698
<b>Net financial balance</b>	3,945	3,016	4,674	-5,120

Table 5

## Net financial balance and net borrowings

	September		April to September	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	3,945	3,016	4,674	-5,120
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-8,693	-7,449	-5,983	-8,317
Canada Savings Bonds	-38	-51	-349	-530
Treasury bills	400	550	-4,000	8,000
Other	-4	-5	-9	-12
Total	-8,335	-6,955	-10,341	-859
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-1,114	-63	-2,123	-451
Canada notes	0	0	-173	0
Total	-1,114	-63	-3,913	-2,045
<b>Net change in borrowings</b>	-9,449	-7,018	-14,254	-2,904
<b>Change in cash balance</b>	-5,504	-4,002	-9,580	-8,024

Table 6

## Condensed statement of assets and liabilities

	March 31, 2002	September 30, 2002	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,679	31,009	-9,670
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	125,803	-1,118
Canada Pension Plan (net of securities)	6,770	6,091	-679
Other pension and other accounts	7,469	7,339	-130
Total pension and other accounts	141,160	139,232	-1,928
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	285,526	-8,317
Treasury bills	94,039	102,039	8,000
Canada Savings Bonds	23,966	23,436	-530
Other	3,391	3,379	-12
Subtotal	415,239	414,380	-859
Payable in foreign currencies	27,032	24,987	-2,045
Total unmaturred debt	442,271	439,366	-2,905
Total interest-bearing debt	583,431	578,599	-4,832
Total liabilities	624,110	609,607	-14,502
<b>Assets</b>			
Cash and accounts receivable	16,829	10,559	-6,270
Foreign exchange accounts	52,046	51,348	-698
Loans, investments and advances (net of allowances)	18,746	18,981	235
Total assets	87,621	80,889	-6,733
<b>Accumulated deficit (net public debt)</b>	<b>536,489</b>	<b>528,718</b>	<b>-7,770</b>

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$13.6 billion in the first six months of 2002-03, compared to a net requirement of

\$10.0 billion in the same period in 2001-02.

Part of the higher requirement was attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first six months of this year compared to the same period last year.

As a result, with a budgetary surplus of \$7.8 billion and a net requirement of \$13.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$5.8 billion in the April to September 2002 period, compared to a financial source of \$4.2 billion in the same period last year.

# The Fiscal Monitor

## Net financial requirement of \$5.1 billion for April to September 2002

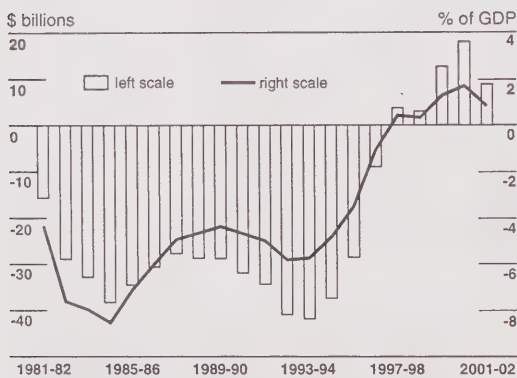
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$0.7 billion in the first six months of 2002-03, compared to a net source of \$0.5 billion in the same period in 2001-02.

With a budgetary surplus of \$7.8 billion, a net requirement of \$13.6 billion from non-budgetary transactions and a net source of \$0.7 billion from foreign exchange transactions, there was a net financial requirement of \$5.1 billion in the April to September 2002 period, compared to a net source of \$4.7 billion in the same period last year.

## Net borrowings down \$2.9 billion for April to September 2002

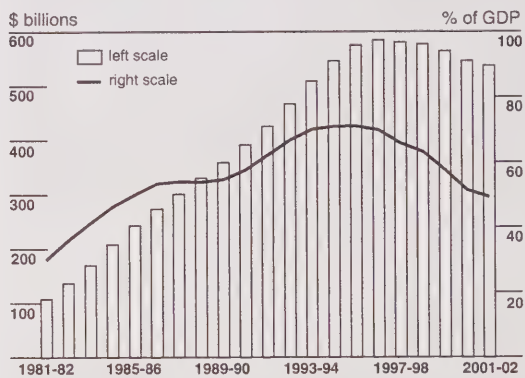
To finance this net financial requirement of \$5.1 billion, the Government reduced its cash balances by \$8.0 billion to \$3.9 billion. This also allowed it to reduce its holding of market debt by \$2.9 billion to the end of September 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

**Budgetary balance**



Sources: *Public Accounts of Canada* and Statistics Canada.

**Net debt**



Sources: *Public Accounts of Canada* and Statistics Canada.





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### October 2002: budgetary surplus of \$126 million

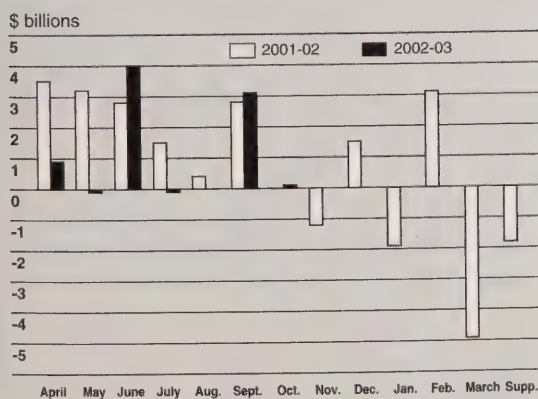
There was a budgetary surplus of \$126 million in October 2002, compared to a deficit of \$42 million in October 2001. All of the year-over-year improvement was due to lower public debt charges (down \$204 million), as budgetary revenues were marginally lower (down \$14 million) and program spending was marginally higher (up \$22 million).

### April to October 2002: budgetary surplus of \$7.9 billion

The budgetary surplus is estimated at \$7.9 billion for the April to October 2002 period, down \$6.2 billion from the surplus of \$14.1 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

The results for 2002-03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. As GST refunds typically closely mirror developments in gross collections, net GST revenues, and hence the budgetary surplus, may be somewhat overstated in the year-to-date results. It is expected that over the balance of the year, GST refunds will more closely reflect gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base. Taking this into account, the results to date are consistent with the estimated budgetary surplus for the year as a whole of \$4.0 billion presented in the October 30 *Economic and Fiscal Update*.

## Monthly surplus and deficit



## Revenues and expenditures

(April to October 2002)

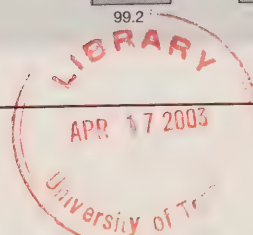
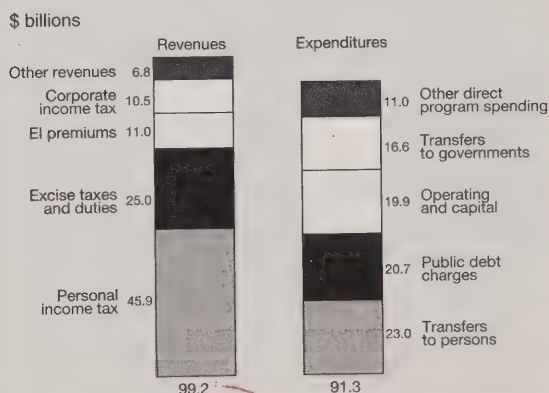


Table 1

## Summary statement of transactions

	October		April to October	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,520	13,506	103,772	99,201
Program spending	-10,275	-10,297	-66,554	-70,558
Operating surplus	3,245	3,209	37,218	28,643
Public debt charges	-3,287	-3,083	-23,088	-20,748
Budgetary balance (deficit/surplus)	-42	126	14,130	7,895
<b>Non-budgetary transactions</b>	-1,830	-403	-11,829	-13,989
<b>Financial requirements/source</b>				
(excluding foreign exchange transactions)	-1,872	-277	2,301	-6,094
<b>Foreign exchange transactions</b>	-1,010	-1,217	-512	-519
<b>Net financial balance</b>	-2,882	-1,494	1,789	-6,613
<b>Net change in borrowings</b>	4,546	757	-9,708	-2,148
<b>Net change in cash balances</b>	1,664	-737	-7,919	-8,761
<b>Cash balance at end of period</b>			5,259	3,189

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Estimates for 2001-02 have been revised from those previously published.

## October 2002: budgetary results

On a year-over-year basis, the budgetary balance increased by \$168 million, from a deficit of \$42 million in October 2001 to a surplus of \$126 million in October 2002. Budgetary revenues declined by \$14 million, or 0.1 per cent, in October 2002 on a year-over-year basis, as higher tax revenues were more than offset by lower non-tax revenues.

- Personal income tax revenues were up \$0.2 billion, or 4.2 per cent, primarily due to higher monthly deductions from employment income, reflecting the strong growth in employment, and lower refunds.
- Corporate income tax revenues were down \$0.1 billion, or 6.4 per cent, due to both lower instalment payments and higher refunds.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore

paying premiums is offsetting the effect of the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).

- Excise taxes and duties were up marginally. However, there were large differences among the major components. GST revenues declined 8.1 per cent, reflecting both lower gross collections and higher refunds. Customs import duties were also lower. In contrast, energy taxes and other excise taxes and duties were both up strongly. The increase in energy taxes was primarily attributable to the timing of receipts, which depressed revenues in October 2001. The increase in other excise taxes and duties was primarily due to the increase in tobacco excise taxes.
- Non-tax revenues were down \$0.2 billion, reflecting the timing of receipts. In September 2002 they were up sharply on a year-over-year basis.

Table 2

## Budgetary revenues

	October		Change	April to October		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,700	5,940	4.2	49,718	45,924	-7.6
Corporate income tax	1,459	1,366	-6.4	13,832	10,502	-24.1
Other income tax revenue	378	380	0.5	2,065	2,031	-1.6
Total income tax	7,537	7,686	2.0	65,615	58,457	-10.9
<b>Employment insurance premium revenues</b>	1,194	1,225	2.6	11,009	11,001	-0.1
<b>Excise taxes and duties</b>						
Goods and services tax	3,172	2,916	-8.1	15,269	17,348	13.6
Customs import duties	331	274	-17.2	1,777	1,892	6.5
Sales and excise taxes	509	811	59.3	5,150	5,587	8.5
Air Travellers Security Charge		44			195	
Total excise taxes and duties	4,012	4,045	0.8	22,196	25,022	12.7
<b>Total tax revenues</b>	12,743	12,956	1.7	98,820	94,480	-4.4
<b>Non-tax revenues</b>	777	550	-29.2	4,952	4,721	-4.7
<b>Total budgetary revenues</b>	13,520	13,506	-0.1	103,772	99,201	-4.4

On a year-over-year basis, program spending was up \$22 million, or 0.2 per cent, as lower direct program spending and transfers to persons were offset by higher transfers to other levels of government.

- Transfers to persons declined 0.5 per cent due to lower EI benefits, as elderly benefits increased by 3.6 per cent. The year-over-year decline in EI benefits is primarily attributable to the timing of benefit payments in October 2002.
- Transfers to other levels of government were up 4.1 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, declined

1.2 per cent. The monthly fluctuations in this component are due in large part to the timing of payments. Last month, a year-over-year increase of 16.0 per cent was recorded.

Public debt charges, on a year-over year basis, declined \$0.2 billion, or 6.2 per cent, due to a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

### April to October 2002: budgetary results

Over the first seven months of fiscal year 2002-03, the budgetary surplus was estimated at \$7.9 billion, compared to a surplus of \$14.1 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	October			April to October		
	2001	2002	Change	2001-02	2002-03	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,137	2,213	3.6	14,638	15,272	4.3
Employment insurance benefits	1,076	983	-8.6	6,973	7,773	11.5
Total	3,213	3,196	-0.5	21,611	23,045	6.6
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	10,092	10,850	7.5
Fiscal transfers	1,046	1,042	-0.4	7,281	7,261	-0.3
Alternative Payments for Standing Programs	-200	-210	5.0	-1,400	-1,471	5.1
Total	2,288	2,382	4.1	15,973	16,640	4.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	40	29	-27.5	504	258	-48.8
Foreign Affairs	245	130	-46.9	879	750	-14.7
Health	107	101	-5.6	698	818	17.2
Human Resources Development	139	132	-5.0	764	771	0.9
Indian and Northern Development	313	308	-1.6	2,442	2,347	-3.9
Industry and Regional Development	201	261	29.9	808	945	17.0
Veterans Affairs	121	141	16.5	868	982	13.1
Other	184	112	-39.1	1,247	1,164	-6.7
Total	1,350	1,214	-10.1	8,210	8,035	-2.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	83	92	10.8	648	665	2.6
Canada Mortgage and Housing Corporation	158	149	-5.7	1,106	1,135	2.6
Other	185	250	35.1	1,037	1,185	14.3
Total	426	491	15.3	2,791	2,985	7.0
Operating and capital expenditures						
Defence	787	893	13.5	5,026	5,581	11.0
All other departmental expenditures	2,211	2,121	-4.1	12,943	14,272	10.3
Total	2,998	3,014	0.5	17,969	19,853	10.5
Total direct program spending	4,774	4,719	-1.2	28,970	30,873	6.6
<b>Total program expenditures</b>	10,275	10,297	0.2	66,554	70,558	6.0
<b>Public debt charges</b>	3,287	3,083	-6.2	23,088	20,748	-10.1
<b>Total budgetary expenditures</b>	13,562	13,380	-1.3	89,642	91,306	1.9
Memorandum item:						
Total transfers	6,851	6,792	-0.9	45,794	47,720	4.2



Over the first seven months of 2002-03, budgetary revenues were down \$4.6 billion, or 4.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$3.8 billion, or 7.6 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.
- Corporate income tax revenues were down \$3.3 billion, or 24.1 per cent, primarily due to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by \$2.8 billion, or 12.7 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 13.6 per cent compared to an increase in the applicable tax base – consumer expenditures – of about 4 per cent. The difference in growth rates is largely attributable to a decline in refunds, which appears to be overstating the underlying increase in GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections.

It is expected that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

- Non-tax revenues were down 4.7 per cent from the same period last year.

Over the first seven months of 2002-03, program spending increased by \$4.0 billion, or 6.0 per cent, compared to the same period last year.

- Transfers to persons were up 6.6 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects an increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.2 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.6 per cent. Subsidies and other transfers were slightly lower, primarily due to the timing of payments. Payments to Crown corporations were up 7.0 per cent. Departmental and agency operating and capital spending was up 10.5 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.3 billion, or 10.1 per cent, reflecting both a reduction in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	October		April to October	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-42	126	14,130	7,895
<b>Loans, investments and advances</b>				
Crown corporations	24	14	379	196
Other	-423	-148	-930	-565
Total	-399	-134	-551	-369
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-745	-251	-1,363	-930
Superannuation accounts	-104	233	-768	-884
Other	-17	-6	16	-136
Total	-866	-24	-2,115	-1,950
<b>Other transactions</b>	-565	-245	-9,163	-11,670
<b>Total non-budgetary transactions</b>	-1,830	-403	-11,829	-13,989
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-1,872	-277	2,301	-6,094
<b>Foreign exchange transactions</b>	-1,010	-1,217	-512	-519
<b>Net financial balance</b>	-2,882	-1,494	1,789	-6,613

Table 5

## Net financial balance and net borrowings

	October		April to October	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	-2,882	-1,494	1,789	-6,613
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	1,435	-1,693	-4,548	-10,011
Canada Savings Bonds	-120	-105	-469	-635
Treasury bills	2,800	1,650	-1,200	9,650
Other	0	-1	-9	-14
Total	4,115	-149	-6,226	-1,010
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	431	906	-1,692	456
Canada notes	0	0	-173	0
Total	431	906	-3,482	-1,138
<b>Net change in borrowings</b>	4,546	757	-9,708	-2,148
<b>Change in cash balance</b>	1,664	-737	-7,919	-8,761

Table 6

## Condensed statement of assets and liabilities

	March 31, 2002	October 31, 2002	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,679	31,486	-9,193
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,037	-884
Canada Pension Plan (net of securities)	6,770	5,840	-930
Other pension and other accounts	7,469	7,333	-136
Total pension and other accounts	141,160	139,209	-1,951
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	283,833	-10,010
Treasury bills	94,039	103,689	9,650
Canada Savings Bonds	23,966	23,331	-635
Other	3,391	3,377	-14
Subtotal	415,239	414,230	-1,009
Payable in foreign currencies	27,032	25,893	-1,139
Total unmaturred debt	442,271	440,123	-2,147
Total interest-bearing debt	583,431	579,332	-4,098
Total liabilities	624,110	610,818	-13,291
<b>Assets</b>			
Cash and accounts receivable	16,829	10,545	-6,284
Foreign exchange accounts	52,046	52,565	519
Loans, investments and advances (net of allowances)	18,746	19,115	369
Total assets	87,621	82,225	-5,396
<b>Accumulated deficit (net public debt)</b>	<b>536,489</b>	<b>528,593</b>	<b>-7,895</b>

### Financial requirement of \$6.1 billion (excluding foreign exchange transactions) for April to October 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in

loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$14.0 billion in the first seven months of 2002-03, compared to a net requirement of \$11.8 billion in the same period in 2001-02. Part of the higher requirement is attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first seven months of this year compared to the same period last year.



# The Fiscal Monitor

As a result, with a budgetary surplus of \$7.9 billion and a net requirement of \$14.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$6.1 billion in the April to October 2002 period, compared to a financial source of \$2.3 billion in the same period last year.

## Net financial requirement of \$6.6 billion for April to October 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all

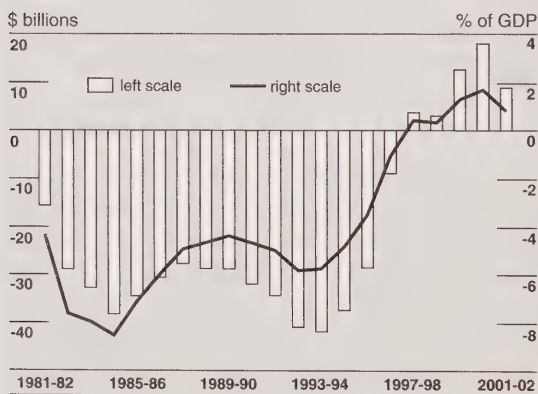
of these factors into account, there was a net requirement of \$0.5 billion in the first seven months of 2002-03, unchanged from the net requirement in the same period in 2001-02.

With a budgetary surplus of \$7.9 billion, a net requirement of \$14.0 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial requirement of \$6.6 billion in the April to October 2002 period, compared to a net source of \$1.8 billion in the same period last year.

## Net borrowings down \$2.1 billion for April to October 2002

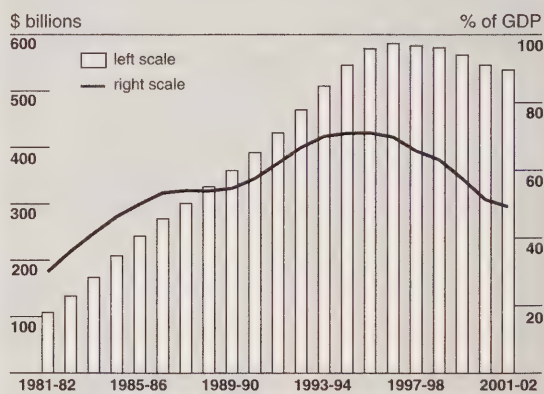
To finance this net financial requirement of \$6.6 billion, the Government reduced its cash balances by \$8.8 billion to \$3.2 billion. This also allowed it to reduce its holding of market debt by \$2.1 billion to the end of October 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

### Budgetary balance



Sources: Public Accounts of Canada and Statistics Canada.

### Net debt



Sources: Public Accounts of Canada and Statistics Canada.

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December 2002





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2002: budgetary surplus of \$332 million

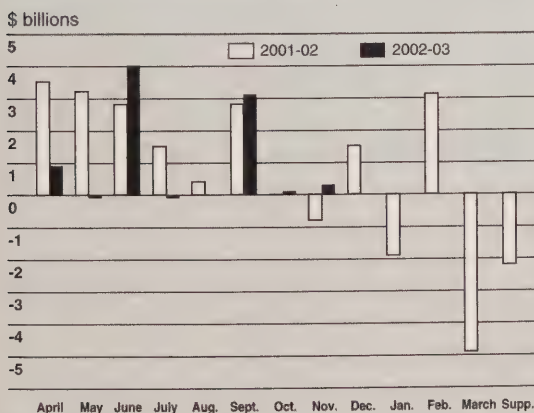
There was a budgetary surplus of \$332 million in November 2002, compared to a deficit of \$844 million in November 2001. This year-over-year improvement is primarily attributable to higher budgetary revenues (up \$1.3 billion), partly reflecting the timing of receipts between November and December as well as processing delays at the border in the aftermath of the September 11, 2001, terrorist attacks, which depressed customs receipts in November 2001. Public debt charges were down \$0.4 billion, while program spending increased by \$0.5 billion.

### April to November 2002: budgetary surplus of \$8.2 billion

The budgetary surplus is estimated at \$8.2 billion for the April to November 2002 period, down \$5.1 billion from the surplus of \$13.3 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

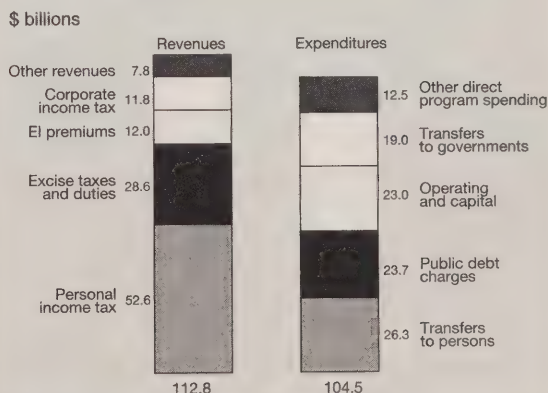
The results for 2002-03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. As GST refunds typically closely mirror developments in gross collections, it is expected that over the balance of the year, GST refunds will more closely reflect changes in gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

## Monthly surplus and deficit



## Revenues and expenditures

(April to November 2002)



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	November		April to November	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	12,276	13,558	116,048	112,763
Program spending	-9,801	-10,280	-76,358	-80,841
Operating surplus	2,475	3,278	39,690	31,922
Public debt charges	-3,319	-2,946	-26,406	-23,694
Budgetary balance (deficit/surplus)	-844	332	13,284	8,228
<b>Non-budgetary transactions</b>	-393	509	-12,223	-13,482
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-1,237	841	1,061	-5,254
<b>Foreign exchange transactions</b>	10	1,070	-502	551
<b>Net financial balance</b>	-1,227	1,911	559	-4,703
<b>Net change in borrowings</b>	9,568	7,138	-141	4,990
<b>Net change in cash balances</b>	8,341	9,049	418	287
<b>Cash balance at end of period</b>			13,600	12,236

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for 2001-02 have been revised from those previously published.

### November 2002: budgetary results

On a year-over-year basis, the budgetary balance increased by \$1.2 billion, from a deficit of \$0.8 billion in November 2001 to a surplus of \$0.3 billion in November 2002. Budgetary revenues increased by \$1.3 billion, or 10.4 per cent, in November 2002 on a year-over-year basis, in large part due to the timing of receipts.

- Personal income tax revenues were up \$0.5 billion, or 8.2 per cent, primarily due to higher monthly deductions from employment income. Part of this increase is attributable to the timing of receipts between November and December, which is expected to be reversed in December 2002.
- Corporate income tax revenues were up \$0.1 billion, or 6.6 per cent, reversing the year-over-year decline reported last month.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore

paying premiums offset the effect of the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).

- Excise taxes and duties were up strongly, \$0.6 billion or 18.9 per cent, primarily due to higher GST revenues and customs import duties. This is largely attributable to the impact of processing delays at the border, which depressed customs receipts in November 2001. The increase in other excise taxes and duties is primarily due to the increase in tobacco excise taxes and higher energy tax revenues.
- Non-tax revenues were up slightly on a year-over-year basis.

On a year-over-year basis, program spending was up \$0.5 billion, or 4.9 per cent.

- Transfers to persons increased 1.8 per cent, as higher elderly benefits more than offset the decline in EI benefits. The decline in EI benefits is attributable to a decline in the number of

Table 2

## Budgetary revenues

	November			April to November		
	2001	2002	Change	2001-02	2002-03	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,127	6,629	8.2	55,845	52,554	-5.9
Corporate income tax	1,253	1,336	6.6	15,084	11,838	-21.5
Other income tax revenue	276	369	33.7	2,342	2,400	2.5
Total income tax	7,656	8,334	8.9	73,271	66,792	-8.8
<b>Employment insurance premium revenues</b>	1,036	1,045	0.9	12,046	12,047	0.0
<b>Excise taxes and duties</b>						
Goods and services tax	2,106	2,445	16.1	17,375	19,794	13.9
Customs import duties	174	276	58.6	1,951	2,168	11.1
Sales and excise taxes	709	798	12.6	5,861	6,383	8.9
Air Travellers Security Charge		35			230	
Total excise taxes and duties	2,989	3,554	18.9	25,187	28,575	13.5
<b>Total tax revenues</b>	11,681	12,933	10.7	110,504	107,414	-2.8
<b>Non-tax revenues</b>	595	625	5.0	5,544	5,349	-3.5
<b>Total budgetary revenues</b>	12,276	13,558	10.4	116,048	112,763	-2.8

benefit weeks, as both the number of beneficiaries and the average weekly benefit were higher.

- Transfers to other levels of government were up 6.6 per cent, primarily reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up 6.3 per cent. The monthly fluctuations in this component are due in large part to the timing of payments. Last month there was a year-over-year decline.

Public debt charges, on a year-over year basis, declined \$0.4 billion, or 11.2 per cent, due to a decline in the average effective interest rate, as the stock of interest-bearing debt was higher.

## April to November 2002: budgetary results

Over the first eight months of fiscal year 2002-03, the budgetary surplus is estimated at \$8.2 billion, compared to a surplus of \$13.3 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first eight months of 2002-03, budgetary revenues were down \$3.3 billion, or 2.8 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$3.3 billion, or 5.9 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

Budgetary expenditures						
	November			April to November		
	2001	2002	Change	2001-02	2002-03	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,137	2,209	3.4	16,775	17,481	4.2
Employment insurance benefits	1,073	1,059	-1.3	8,046	8,832	9.8
Total	3,210	3,268	1.8	24,821	26,313	6.0
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	11,533	12,400	7.5
Fiscal transfers	1,034	1,051	1.6	8,315	8,313	0.0
Alternative Payments for Standing Programs	-233	-210	-9.9	-1,632	-1,681	3.0
Total	2,243	2,391	6.6	18,216	19,032	4.5
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	21	75	257.1	525	333	-36.6
Foreign Affairs	121	114	-5.8	1,000	864	-13.6
Health	153	155	1.3	851	973	14.3
Human Resources Development	142	119	-16.2	906	890	-1.8
Indian and Northern Development	290	300	3.4	2,733	2,647	-3.1
Industry and Regional Development	151	70	-53.6	958	1,015	5.9
Veterans Affairs	132	140	6.1	1,000	1,122	12.2
Other	216	198	-8.3	1,462	1,361	-6.9
Total	1,226	1,171	-4.5	9,435	9,205	-2.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	70	89	27.1	718	754	5.0
Canada Mortgage and Housing Corporation	183	125	-31.7	1,289	1,260	-2.2
Other	175	129	-26.3	1,213	1,318	8.7
Total	428	343	-19.9	3,220	3,332	3.5
Operating and capital expenditures						
Defence	869	803	-7.6	5,896	6,384	8.3
All other departmental expenditures	1,825	2,304	26.2	14,770	16,575	12.2
Total	2,694	3,107	15.3	20,666	22,959	11.1
Total direct program spending	4,348	4,621	6.3	33,321	35,496	6.5
<b>Total program expenditures</b>	9,801	10,280	4.9	76,358	80,841	5.9
<b>Public debt charges</b>	3,319	2,946	-11.2	26,406	23,694	-10.3
<b>Total budgetary expenditures</b>	13,120	13,226	0.8	102,764	104,535	1.7
Memorandum item:						
Total transfers	6,679	6,830	2.3	52,472	54,550	4.0



However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down \$3.2 billion, or 21.5 per cent, primarily due to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were virtually unchanged, as lower premium rates offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$3.4 billion, or 13.5 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 13.9 per cent compared to an increase in the applicable tax base – consumer expenditures – of about 6 per cent. The difference in growth rates is largely attributable to a decline in refunds, which appears to be overstating the underlying increase in GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 3.5 per cent from the same period of 2001-02.

Over the first eight months of 2002-03, program spending increased by \$4.5 billion, or 5.9 per cent, compared to the same period of 2001-02.

- Transfers to persons were up 6.0 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.5 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.5 per cent. Subsidies and other transfers were slightly lower, primarily due to the timing of payments. Payments to Crown corporations were up 3.5 per cent. Departmental and agency operating and capital spending was up 11.1 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.7 billion, or 10.3 per cent, reflecting a decline in the average effective interest rate on interest-bearing debt.

## **Financial requirement of \$5.3 billion (excluding foreign exchange transactions) for April to November 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	November		April to November	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-844	332	13,284	8,228
<b>Loans, investments and advances</b>				
Crown corporations	50	57	428	254
Other	-3	-127	-931	-693
Total	47	-70	-503	-439
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-584	-199	-1,947	-1,129
Superannuation accounts	-743	148	-1,510	-736
Other	62	-44	78	-182
Total	-1,265	-95	-3,379	-2,047
<b>Other transactions</b>	825	674	-8,341	-10,996
<b>Total non-budgetary transactions</b>	-393	509	-12,223	-13,482
<b>Financial requirements/source</b>				
(excluding foreign exchange transactions)	-1,237	841	1,061	-5,254
<b>Foreign exchange transactions</b>	10	1,070	-502	551
<b>Net financial balance</b>	-1,227	1,911	559	-4,703

Table 5

## Net financial balance and net borrowings

	November		April to November	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Net financial balance</b>	-1,227	1,911	559	-4,703
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	5,351	6,552	802	-3,459
Canada Savings Bonds	-2,043	-1,019	-2,512	-1,654
Treasury bills	6,700	2,750	5,500	12,400
Other	-12	-3	-21	-17
Total	9,996	8,280	3,769	7,270
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-428	-1,142	-2,120	-686
Canada notes	0	0	-173	0
Total	-428	-1,142	-3,910	-2,280
<b>Net change in borrowings</b>	9,568	7,138	-141	4,990
<b>Change in cash balance</b>	8,341	9,049	418	287

Table 6

## Condensed statement of assets and liabilities

	March 31, 2002	November 30, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,679	31,675	-9,004
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,185	-736
Canada Pension Plan (net of securities)	6,770	5,641	-1,129
Other pension and other accounts	7,469	7,287	-182
Total pension and other accounts	141,160	139,113	-2,047
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	290,384	-3,459
Treasury bills	94,039	106,439	12,400
Canada Savings Bonds	23,966	22,312	-1,654
Other	3,391	3,374	-17
Subtotal	415,239	422,509	7,270
Payable in foreign currencies	27,032	24,751	-2,281
Total unmatured debt	442,271	447,260	4,989
Total interest-bearing debt	583,431	586,373	2,942
Total liabilities	624,110	618,048	-6,063
<b>Assets</b>			
Cash and accounts receivable	16,829	19,108	2,279
Foreign exchange accounts	52,046	51,495	-551
Loans, investments and advances (net of allowances)	18,746	19,185	439
Total assets	87,621	89,788	2,167
<b>Accumulated deficit (net public debt)</b>	536,489	528,260	-8,228

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$13.5 billion in the first eight months of 2002-03, compared to a net requirement

of \$12.2 billion in the same period of 2001-02. Part of the higher requirement is attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first eight months of this year compared to the same period of 2001-02.

As a result, with a budgetary surplus of \$8.2 billion and a net requirement of \$13.5 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$5.3 billion in the April to November 2002 period, compared to a financial source of \$1.1 billion in the same period of 2001-02.



# The Fiscal Monitor

## Net financial requirement of \$4.7 billion for April to November 2002

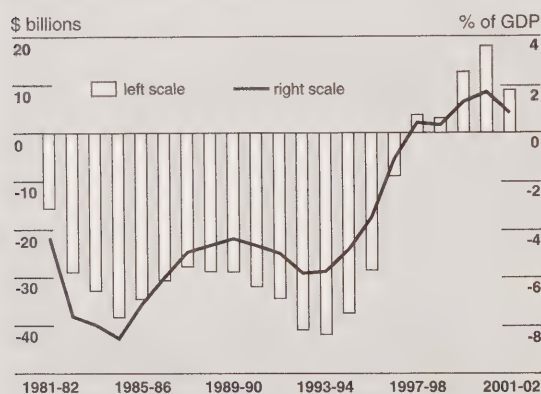
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$0.6 billion in the first eight months of 2002-03, compared to a net requirement of \$0.5 billion in the same period of 2001-02.

With a budgetary surplus of \$8.2 billion, a net requirement of \$13.5 billion from non-budgetary transactions and a net source of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$4.7 billion in the April to November 2002 period, compared to a net source of \$0.6 billion in the same period of 2001-02.

## Net borrowings up \$5.0 billion for April to November 2002

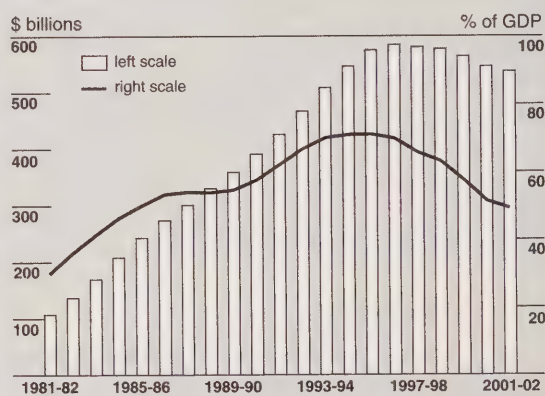
To finance this net financial requirement of \$4.7 billion, the Government increased its net borrowings by \$5.0 billion. In addition, it increased its cash balances by \$0.3 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

### Budgetary balance



Sources: Public Accounts of Canada and Statistics Canada.

### Net debt



Sources: Public Accounts of Canada and Statistics Canada.





# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

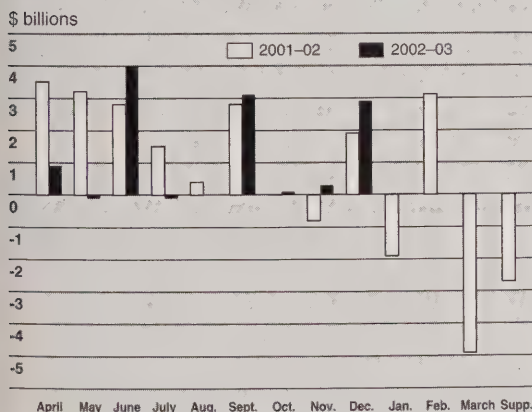
### December 2002: budgetary surplus of \$2.9 billion

There was a budgetary surplus of \$2.9 billion in December 2002, compared to a surplus of \$1.9 billion in December 2001. Typically, a surplus is recorded in December, reflecting the inclusion of quarterly personal income tax remittances and final corporate income tax payments from those corporations with a taxation year ending October 31. The year-over-year improvement in the budgetary balance is entirely attributable to a record year-over-year increase in goods and services tax (GST) revenues, up \$1.1 billion, or 60.1 per cent, in part reflecting the timing of receipts between December and January, which is expected to be reversed next month. Total budgetary expenditures were up slightly as higher program spending was largely offset by lower public debt charges.

### April to December 2002: budgetary surplus of \$11.2 billion

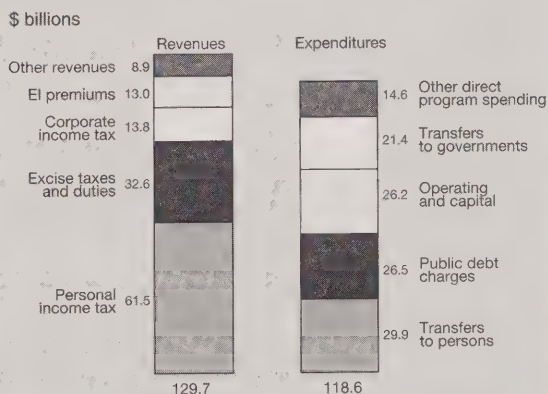
The budgetary surplus was estimated at \$11.2 billion for the April to December 2002 period, down \$4 billion from the surplus of \$15.1 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years. The results for 2002-03 are also affected by stronger-than-expected GST revenue growth, which is due to both timing factors and a decline in GST refunds. It is expected that over the balance of the year, GST refunds will more closely reflect changes in gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

### Monthly surplus and deficit



### Revenues and expenditures

(April to December 2002)



Department of Finance  
Canada

Ministère des Finances  
Canada

Canada



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	December		April to December	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,681	16,968	131,729	129,730
Program spending	-10,616	-11,224	-86,975	-92,068
Operating surplus	5,065	5,744	44,754	37,662
Public debt charges	-3,206	-2,803	-29,612	-26,497
Budgetary balance (deficit/surplus)	1,859	2,941	15,142	11,165
<b>Non-budgetary transactions</b>	-3,466	-4,448	-15,692	-17,927
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-1,607	-1,507	-550	-6,762
<b>Foreign exchange transactions</b>	-142	741	-643	1,292
<b>Net financial balance</b>	-1,749	-766	-1,193	-5,470
<b>Net change in borrowings</b>	-6,858	-7,634	-6,997	-2,644
<b>Net change in cash balances</b>	-8,607	-8,400	-8,190	-8,114
<b>Cash balance at end of period</b>			4,992	3,834

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for 2001-02 have been revised from those previously published.

## December 2002: budgetary results

On a year-over-year basis, the budgetary surplus increased by \$1.1 billion in December 2002, with budgetary revenues up \$1.3 billion, or 8.2 per cent.

- Personal income tax revenues were down \$0.3 billion, or 3.2 per cent, primarily due to lower tax remittances from quarterly filers, as well as the timing of receipts between November and December, as noted in the November 2002 *Fiscal Monitor*.
- Corporate income tax revenues were up \$0.2 billion, or 11.9 per cent, reflecting higher final payments from those corporations with a taxation year ending October 31.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums offset the effect of the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).

- Excise taxes and duties were up strongly, \$1.2 billion or 41.0 per cent, primarily due to higher GST revenues. Net GST revenues were affected by the timing of receipts between December and January, which is expected to be reversed in January 2003.
- Non-tax revenues were up 20.3 per cent on a year-over-year basis.

On a year-over-year basis, program spending was up \$0.6 billion, or 5.7 per cent.

- Transfers to persons declined 2.2 per cent due to lower EI benefits, reflecting a decline in the number of people unemployed. Elderly benefit payments were up marginally.
- Transfers to other levels of government were up 6.6 per cent, primarily reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.

Table 2

## Budgetary revenues

	December		Change	April to December		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	9,191	8,896	-3.2	65,036	61,450	-5.5
Corporate income tax	1,728	1,933	11.9	16,812	13,771	-18.1
Other income tax revenue	311	359	15.4	2,653	2,759	4.0
Total income tax	11,230	11,188	-0.4	84,501	77,980	-7.7
<b>Employment insurance premium revenues</b>	952	985	3.5	12,998	13,032	0.3
<b>Excise taxes and duties</b>						
Goods and services tax	1,815	2,906	60.1	19,190	22,700	18.3
Customs import duties	295	241	-18.3	2,246	2,409	7.3
Sales and excise taxes	718	805	12.1	6,581	7,189	9.2
Air Travellers Security Charge		36			266	
Total excise taxes and duties	2,828	3,988	41.0	28,017	32,564	16.2
<b>Total tax revenues</b>	15,010	16,161	7.7	125,516	123,576	-1.5
<b>Non-tax revenues</b>	671	807	20.3	6,213	6,154	-0.9
<b>Total budgetary revenues</b>	15,681	16,968	8.2	131,729	129,730	-1.5

- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up 11.4 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined \$0.4 billion, or 12.6 per cent, due to a decline in both the average effective interest rate and the stock of interest-bearing debt.

## April to December 2002: budgetary results

Over the first nine months of fiscal year 2002-03, the budgetary surplus was estimated at \$11.2 billion, compared to a surplus of \$15.1 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first nine months of 2002-03, budgetary revenues were down \$2.0 billion, or 1.5 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$3.6 billion, or 5.5 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	December		Change	April to December		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,151	2,161	0.5	18,926	19,642	3.8
Employment insurance benefits	1,497	1,408	-5.9	9,543	10,239	7.3
Total	3,648	3,569	-2.2	28,469	29,881	5.0
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	12,975	13,950	7.5
Fiscal transfers	1,048	1,067	1.8	9,363	9,380	0.2
Alternative Payments for Standing Programs	-233	-211	-9.4	-1,865	-1,892	1.4
Total	2,257	2,406	6.6	20,473	21,438	4.7
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	41	33	-19.5	566	366	-35.3
Foreign Affairs	169	197	16.6	1,169	1,060	-9.3
Health	79	79	0.0	929	1,051	13.1
Human Resources Development	103	201	95.1	1,008	1,091	8.2
Indian and Northern Development	323	348	7.7	3,055	2,994	-2.0
Industry and Regional Development	155	315	103.2	1,113	1,330	19.5
Veterans Affairs	130	140	7.7	1,130	1,263	11.8
Other	234	317	35.5	1,695	1,679	-0.9
Total	1,234	1,630	32.1	10,665	10,834	1.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	133	82	-38.3	851	836	-1.8
Canada Mortgage and Housing Corporation	233	159	-31.8	1,522	1,419	-6.8
Other	170	174	2.4	1,382	1,492	8.0
Total	536	415	-22.6	3,755	3,747	-0.2
Operating and capital expenditures						
Defence	839	906	8.0	6,735	7,287	8.2
All other departmental expenditures	2,102	2,298	9.3	16,878	18,881	11.9
Total	2,941	3,204	8.9	23,613	26,168	10.8
Total direct program spending	4,711	5,249	11.4	38,033	40,749	7.1
<b>Total program expenditures</b>	10,616	11,224	5.7	86,975	92,068	5.9
<b>Public debt charges</b>	3,206	2,803	-12.6	29,612	26,497	-10.5
<b>Total budgetary expenditures</b>	13,822	14,027	1.5	116,587	118,565	1.7
Memorandum item:						
Total transfers	7,139	7,605	6.5	59,607	62,153	4.3



- Corporate income tax revenues were down \$3.0 billion, or 18.1 per cent, primarily due to higher refunds pertaining to previous years' taxes paid.
- EI premium revenues were virtually unchanged, as lower premium rates offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$4.5 billion, or 16.2 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 18.3 per cent compared to an increase in the applicable tax base—consumer expenditures—of about 6 per cent. The difference in growth rates is largely attributable to timing factors as well as a decline in refunds, which appears to be overstating the underlying increase in GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that GST revenues will be lower in January 2003 and that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 0.9 per cent from the same period last year.

Over the first nine months of 2002–03, program spending increased by \$5.1 billion, or 5.9 per cent, compared to the same period of 2001–02.

- Transfers to persons were up 5.0 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects an increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.

- Transfers to other levels of government were up 4.7 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 7.1 per cent. Subsidies and other transfers were up slightly. Payments to Crown corporations were down 0.2 per cent, primarily reflecting the timing of payments. Departmental and agency operating and capital spending was up 10.8 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$3.1 billion, or 10.5 per cent, reflecting a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

## **Financial requirement of \$6.8 billion (excluding foreign exchange transactions) for April to December 2002**

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	December		April to December	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	1,859	2,941	15,142	11,165
<b>Loans, investments and advances</b>				
Crown corporations	70	90	499	344
Other	-199	-292	-1,131	-985
Total	-129	-202	-632	-641
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-94	-140	-2,041	-1,269
Superannuation accounts	85	298	-1,425	-438
Other	-21	9	57	-173
Total	-30	167	-3,409	-1,880
<b>Other transactions</b>	-3,307	-4,413	-11,651	-15,406
<b>Total non-budgetary transactions</b>	-3,466	-4,448	-15,692	-17,927
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	-1,607	-1,507	-550	-6,762
<b>Foreign exchange transactions</b>	-142	741	-643	1,292
<b>Net financial balance</b>	-1,749	-766	-1,193	-5,470

Table 5

## Net financial balance and net borrowings

	December		April to December	
	2001	2002	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	-1,749	-766	-1,193	-5,470
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-6,663	-5,398	-5,860	-8,857
Canada Savings Bonds	-107	-3	-2,618	-1,657
Treasury bills	800	-2,250	6,300	10,150
Other	-1	-1	-22	-18
Total	-5,971	-7,652	-2,200	-382
Payable in foreign currencies				
Marketable bonds	0	5	-1,576	-1,589
Notes and loans	0		-41	
Canada bills	-887	13	-3,007	-673
Canada notes	0	0	-173	0
Total	-887	18	-4,797	-2,262
<b>Net change in borrowings</b>	-6,858	-7,634	-6,997	-2,644
<b>Change in cash balance</b>	-8,607	-8,400	-8,190	-8,114

Non-budgetary transactions resulted in a net requirement of \$17.9 billion in the first nine months of 2002–03, compared to a net requirement of \$15.7 billion in the same period of 2001–02. Part of the higher requirement is attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues this year compared to the same period of 2001–02. In addition, the timing of receipts resulted in a higher requirement this year.

As a result, with a budgetary surplus of \$11.2 billion and a net requirement of \$17.9 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$6.8 billion in the April to December 2002 period, compared to a requirement of \$0.5 billion in the same period of 2001–02.

## Net financial requirement of \$5.5 billion for April to December 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related

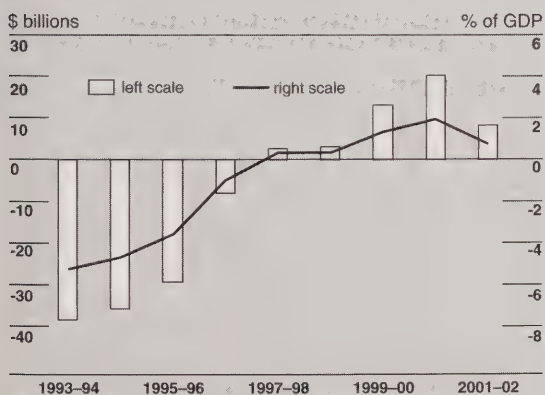
to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$1.3 billion in the first nine months of 2002–03, compared to a net requirement of \$0.6 billion in the same period of 2001–02.

With a budgetary surplus of \$11.2 billion, a net requirement of \$17.9 billion from non-budgetary transactions and a net source of \$1.3 billion from foreign exchange transactions, there was a net financial requirement of \$5.5 billion in the April to December 2002 period, compared to a net requirement of \$1.2 billion in the same period of 2001–02.

## Net borrowings down \$2.6 billion for April to December 2002

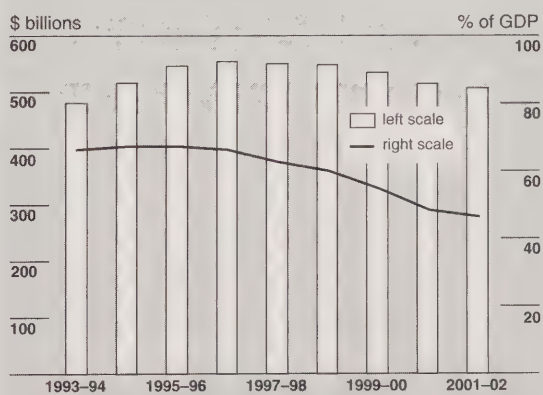
To finance this net financial requirement of \$5.5 billion, the Government reduced its cash balances by \$8.1 billion. This also allowed it to reduce its net borrowings by \$2.6 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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## Note to readers:

The Government has implemented full accrual accounting in its annual financial statements. However, the monthly financial results for the balance of fiscal year 2002–03 will remain on a modified accrual basis of accounting. Until the monthly results are on full accrual, Table 6 “Condensed statement of assets and liabilities” will not be presented.

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February 2003



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Publications

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2003: budgetary surplus of \$18 million

There was a budgetary surplus of \$18 million in January 2003, compared to a surplus of \$132 million in January 2002. On a year-over-year basis, budgetary revenues advanced by \$471 million, or 3.4 per cent, while program spending was up \$392 million, or 3.5 per cent, and public debt charges increased by \$193 million, or 7.2 per cent.

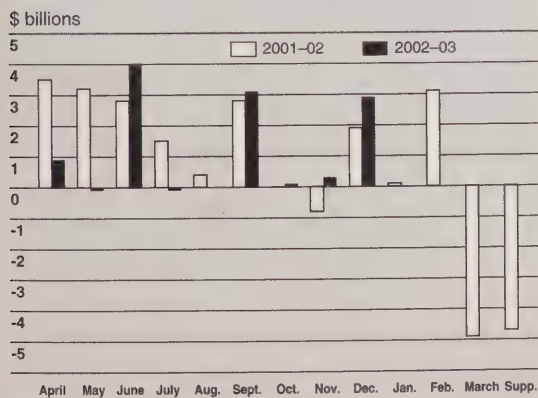
### April 2002 to January 2003: budgetary surplus of \$11.2 billion

The budgetary surplus was estimated at \$11.2 billion for the April 2002 to January 2003 period, down \$4.1 billion from the surplus of \$15.3 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years. The results for 2002-03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which is due to both timing factors and a decline in GST refunds. It is expected that over the balance of the year, GST refunds will more closely reflect changes in gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

The monthly financial results are presented on a modified accrual basis of accounting. The Budget 2003 estimate for the year as a whole was presented on a full accrual basis of accounting. Taking the accounting differences and the impact of the policy initiatives for 2002-03 proposed in the budget into consideration, the results to date are consistent with the expected outcome for 2002-03 as set out in Budget 2003.

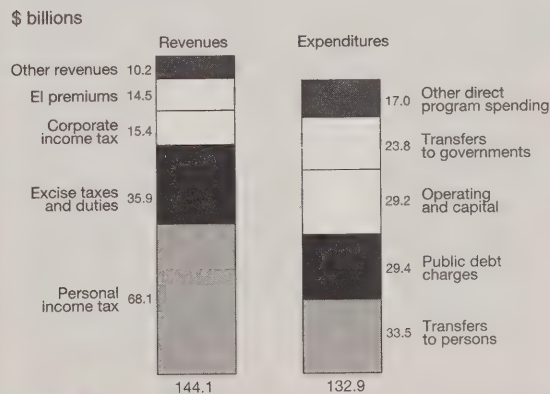
*The Fiscal Monitor* will present monthly results on a full accrual basis beginning with the April 2003 *Fiscal Monitor*.

## Monthly surplus and deficit



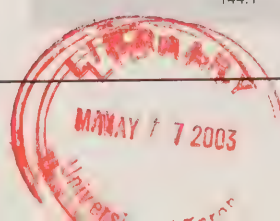
## Revenues and expenditures

(April 2002 to January 2003)



Department of Finance  
Canada

Ministère des Finances  
Canada



Canada

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	January		April to January	
	2002	2003	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,908	14,379	145,638	144,108
Program spending	-11,109	-11,501	-98,083	-103,569
Operating surplus	2,799	2,878	47,555	40,539
Public debt charges	-2,667	-2,860	-32,280	-29,357
Budgetary balance (deficit/surplus)	132	18	15,275	11,182
<b>Non-budgetary transactions</b>	949	2,912	-14,746	-15,020
<b>Financial requirements/source</b>				
(excluding foreign exchange transactions)	1,081	2,930	529	-3,838
<b>Foreign exchange transactions</b>	152	-1	-491	1,290
<b>Net financial balance</b>	-1,233	2,929	38	-2,548
<b>Net change in borrowings</b>	-1,781	-1,938	-8,780	-4,582
<b>Net change in cash balances</b>	-548	991	-8,742	-7,130
<b>Cash balance at end of period</b>			4,442	4,822

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Estimates for 2001-02 have been revised from those previously published.

## January 2003: budgetary results

On a year-over-year basis, the budgetary surplus declined by \$114 million to \$18 million in January 2003. Budgetary revenues, however, increased by \$0.5 billion, or 3.4 per cent.

- Personal income tax revenues were up \$0.3 billion, or 4.9 per cent, primarily due to higher deductions from employment income, reflecting the strong growth in employment.
- Corporate income tax revenues were down marginally, as lower instalment payments were largely offset by lower refunds.
- Employment insurance (EI) premium revenues were up \$68 million, or 4.9 per cent, as the impact of the growth in the number of people employed and therefore paying premiums offset the effect of the decline in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Excise taxes and duties were down marginally, as lower GST revenues more than offset increases in customs import duties and other excise taxes and duties, as well as the introduction of the Air Travellers Security

Charge. The decline in net GST revenues is attributable to an increase in refunds, as gross collections increased, broadly in line with the increase in consumer expenditures. The increase in customs import duties is due to the timing of receipts between December and January, while the advance in other excise taxes and duties reflects the increase in tobacco taxes.

- Non-tax revenues were up 3.2 per cent on a year-over-year basis.

On a year-over-year basis, program spending was up \$0.4 billion, or 3.5 per cent.

- Transfers to persons declined 1.4 per cent, attributable to lower EI benefits, reflecting a decline in the number of persons unemployed. Elderly benefit payments were up 4.2 per cent.
- Transfers to other levels of government were up 6.6 per cent, primarily reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.

Table 2  
**Budgetary revenues**

	January		Change	April to January		Change
	2002	2003		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,355	6,669	4.9	71,391	68,118	-4.6
Corporate income tax	1,649	1,631	-1.1	18,461	15,402	-16.6
Other income tax revenue	554	665	20.0	3,207	3,424	6.8
Total income tax	8,558	8,965	4.8	93,059	86,944	-6.6
<b>Employment insurance premium revenues</b>	1,374	1,442	4.9	14,371	14,474	0.7
<b>Excise taxes and duties</b>						
Goods and services tax	2,474	2,324	-6.1	21,664	25,024	15.5
Customs import duties	186	254	36.6	2,432	2,663	9.5
Other excise taxes and duties	719	748	4.0	7,299	7,937	8.7
Air Travellers Security Charge		30			295	
Total excise taxes and duties	3,379	3,356	-0.7	31,395	35,919	14.4
<b>Total tax revenues</b>	13,311	13,763	3.4	138,825	137,337	-1.1
<b>Non-tax revenues</b>	597	616	3.2	6,813	6,771	-0.6
<b>Total budgetary revenues</b>	13,908	14,379	3.4	145,638	144,108	-1.1

- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up \$0.3 billion, or 5.7 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, increased \$0.2 billion, or 7.2 per cent, due to adjustments made to the 2001-02 estimates to bring them more in line with the final outcome for the year as a whole.

## April 2002 to January 2003: budgetary results

Over the first 10 months of fiscal year 2002-03, the budgetary surplus was estimated at \$11.2 billion, compared to a surplus of \$15.3 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first 10 months of 2002-03, budgetary revenues were down \$1.5 billion, or 1.1 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$3.3 billion, or 4.6 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. On a full accrual basis of accounting, these impacts will be recorded in the year in which the taxable activity took place. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	January		Change	April to January		Change
	2002	2003		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,140	2,230	4.2	21,066	21,872	3.8
Employment insurance benefits	1,548	1,407	-9.1	11,091	11,646	5.0
Total	3,688	3,637	-1.4	32,157	33,518	4.2
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	14,416	15,500	7.5
Fiscal transfers	1,034	1,052	1.7	10,397	10,431	0.3
Alternative Payments for Standing Programs	-233	-210	-9.9	-2,098	-2,101	0.1
Total	2,243	2,392	6.6	22,715	23,830	4.9
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	43	328	662.8	609	694	14.0
Foreign Affairs	243	225	-7.4	1,411	1,285	-8.9
Health	145	192	32.4	1,075	1,244	15.7
Human Resources Development	370	116	-68.6	1,378	1,207	-12.4
Indian and Northern Development	299	393	31.4	3,354	3,388	1.0
Industry and Regional Development	71	152	114.1	1,183	1,482	25.3
Veterans Affairs	138	147	6.5	1,268	1,410	11.2
Other	383	494	29.0	2,081	2,172	4.4
Total	1,692	2,047	21.0	12,359	12,882	4.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	78	20.0	916	914	-0.2
Canada Mortgage and Housing Corporation	158	159	0.6	1,680	1,578	-6.1
Other	205	164	-20.0	1,585	1,655	4.4
Total	428	401	-6.3	4,181	4,147	-0.8
Operating and capital expenditures						
Defence	1,086	699	-35.6	7,820	7,986	2.1
All other departmental expenditures	1,972	2,325	17.9	18,851	21,206	12.5
Total	3,058	3,024	-1.1	26,671	29,192	9.5
Total direct program spending	5,178	5,472	5.7	43,211	46,221	7.0
<b>Total program expenditures</b>	11,109	11,501	3.5	98,083	103,569	5.6
<b>Public debt charges</b>	2,667	2,860	7.2	32,280	29,357	-9.1
<b>Total budgetary expenditures</b>	13,776	14,361	4.2	130,363	132,926	2.0
<b>Memorandum item:</b>						
Total transfers	7,623	8,076	5.9	67,231	70,230	4.5



- Corporate income tax revenues were down \$3.1 billion, or 16.6 per cent, primarily due to higher refunds pertaining to previous years' taxes paid.
- EI premium revenues were virtually unchanged, as lower premium rates offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$4.5 billion, or 14.4 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 15.5 per cent compared to an increase in the applicable tax base—consumer expenditures—of about 6 per cent. The difference in growth rates is largely attributable to refunds which, prior to January 2003, were lower than in the same period last year. Over the balance of the fiscal year, GST refunds are expected to more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 0.6 per cent from the same period last year.

Over the first 10 months of 2002–03, program spending increased by \$5.5 billion, or 5.6 per cent, compared to the same period of 2001–02.

- Transfers to persons were up 4.2 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.9 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were unchanged, primarily reflecting the timing of payments.

- Direct program spending increased by 7.0 per cent. Subsidies and other transfers were up 4.2 per cent, primarily due to higher payments to farmers and veterans as well as increased transfers to the granting councils for university research activities. Payments to Crown corporations were down slightly, primarily reflecting the timing of payments. Departmental and agency operating and capital spending was up 9.5 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.9 billion, or 9.1 per cent, reflecting a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

## **Financial requirement of \$3.8 billion (excluding foreign exchange transactions) for April 2002 to January 2003**

The monthly budgetary balance in *The Fiscal Monitor* continues to be presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions resulted in a net requirement of \$15.0 billion in the first 10 months of 2002–03, compared to a net requirement of \$14.7 billion in the same period of 2001–02.

As a result, with a budgetary surplus of \$11.2 billion and a net requirement of \$15.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$3.8 billion in the April 2002 to January 2003 period, compared to a source of \$0.5 billion in the same period of 2001–02.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	January		April to January	
	2002	2003	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	132	18	15,275	11,182
<b>Loans, investments and advances</b>				
Crown corporations	46	10	544	354
Other	-208	-353	-1,338	-1,338
Total	-162	-343	-794	-984
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	320	344	-1,720	-924
Superannuation accounts	-789	-175	-2,213	-614
Other	50	338	106	165
Total	-419	507	-3,827	-1,373
<b>Other transactions</b>	1,530	2,748	-10,125	-12,663
<b>Total non-budgetary transactions</b>	949	2,912	-14,746	-15,020
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,081	2,930	529	-3,838
<b>Foreign exchange transactions</b>	152	-1	-491	1,290
<b>Net financial balance</b>	1,233	2,929	38	-2,548

Table 5

## Net financial balance and net borrowings

	January		April to January	
	2002	2003	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	1,233	2,929	38	-2,548
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	364	-460	-5,497	-9,317
Canada Savings Bonds	-118	-44	-2,737	-1,701
Treasury bills	-1,200	-1,350	5,100	8,800
Other	-25	-1	-47	-19
Total	-979	-1,855	-3,181	-2,237
Payable in foreign currencies				
Marketable bonds	0	9	-1,576	-1,579
Notes and loans	-473		-514	
Canada bills	-329	-92	-3,336	-766
Canada notes	0	0	-173	0
Total	-802	-83	-5,599	-2,345
<b>Net change in borrowings</b>	-1,781	-1,938	-8,780	-4,582
<b>Change in cash balance</b>	-548	991	-8,742	-7,130

## Net financial requirement of \$2.5 billion for April 2002 to January 2003

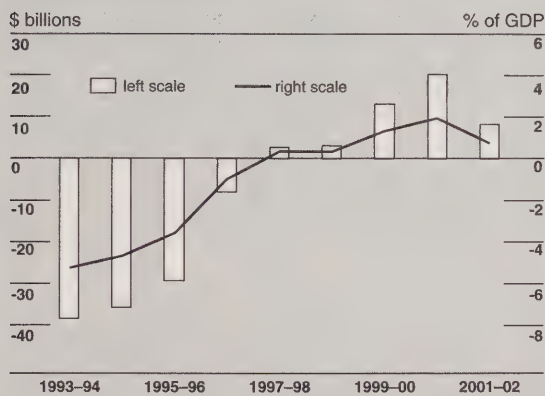
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$1.3 billion in the first 10 months of 2002-03, compared to a net requirement of \$0.5 billion in the same period of 2001-02.

With a budgetary surplus of \$11.2 billion, a net requirement of \$15.0 billion from non-budgetary transactions and a net source of \$1.3 billion from foreign exchange transactions, there was a net financial requirement of \$2.5 billion in the April 2002 to January 2003 period, compared to a net source of \$38 million in the same period of 2001-02.

## Net borrowings down \$4.6 billion for April 2002 to January 2003

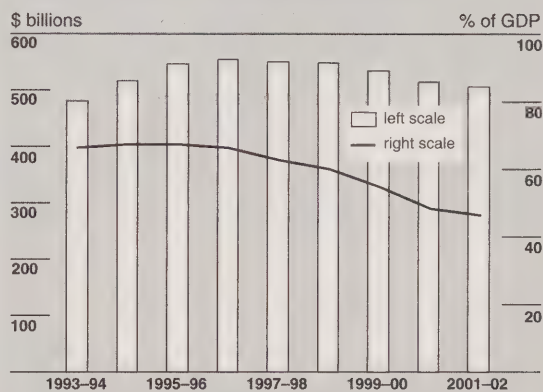
To finance this net financial requirement of \$2.5 billion, the Government reduced its cash balances by \$7.1 billion. This also allowed it to reduce its net borrowings by \$4.6 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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## Note to readers:

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# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### February 2003: budgetary surplus of \$3.6 billion

There was a budgetary surplus of \$3.6 billion in February 2003, down \$0.6 billion from the surplus of \$4.2 billion in February 2002. A large surplus was expected in February, as these results include the final corporate income tax settlement payments from corporations whose taxation year ends on December 31. On a year-over-year basis, budgetary revenues increased by \$0.3 billion, or 1.9 per cent, program spending increased by \$1.1 billion, or 11.6 per cent, while public debt charges declined by \$0.2 billion, or 5.0 per cent.

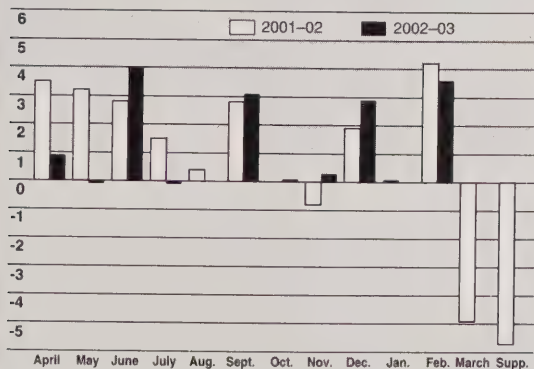
### April 2002 to February 2003: budgetary surplus of \$14.8 billion

The budgetary surplus was estimated at \$14.8 billion for the April 2002 to February 2003 period, down \$4.7 billion from the surplus of \$19.5 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds and lower final settlement payments, as corporations are applying losses experienced in 2001 to taxes paid in previous years or owing in 2002.

The monthly financial results are presented on a modified accrual basis of accounting. The Budget 2003 estimate for the year as a whole was presented on a full accrual basis of accounting. Taking into consideration the normal fiscal developments over the balance of the year, the accounting differences and the impact of the policy initiatives for 2002-03 proposed in the budget, including the \$2.5-billion Canada Health and Social Transfer (CHST) supplement, the \$1.5-billion Diagnostic/Medical Equipment Fund, \$0.6 billion for health information technology and \$0.5 billion to the Canada Foundation for Innovation, the results to date are consistent with the expected outcome for 2002-03 as set out in Budget 2003. *The Fiscal Monitor* will present monthly results on a full accrual basis beginning with the April 2003 *Monitor*.

## Monthly surplus and deficit

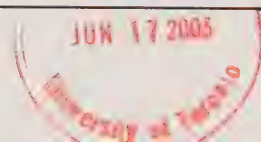
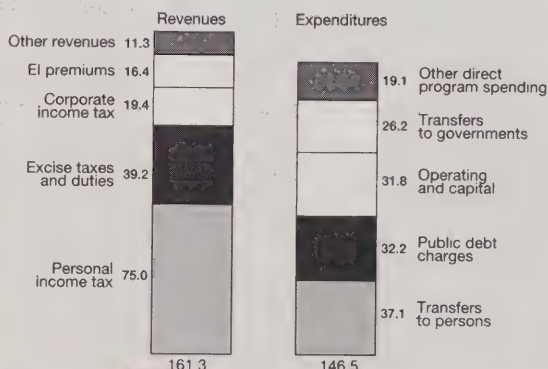
\$ billions



## Revenues and expenditures

(April 2002 to February 2003)

\$ billions



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	February		April to February	
	2002	2003	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,866	17,194	162,505	161,300
Program spending	-9,617	-10,736	-107,701	-114,303
Operating surplus	7,249	6,458	54,804	46,998
Public debt charges	-3,022	-2,872	-35,302	-32,231
Budgetary balance (deficit/surplus)	4,227	3,586	19,502	14,766
<b>Non-budgetary transactions</b>	-1,389	-365	-16,134	-15,380
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,838	3,221	3,368	-614
<b>Foreign exchange transactions</b>	-626	3,042	-1,117	4,332
<b>Net financial balance</b>	2,212	6,263	2,251	3,718
<b>Net change in borrowings</b>	3,322	-5,143	-5,457	-9,726
<b>Net change in cash balances</b>	5,534	1,120	-3,206	-6,008
<b>Cash balance at end of period</b>			9,974	5,940

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for 2001-02 have been revised from those previously published.

### February 2003: budgetary results

On a year-over-year basis, the budgetary surplus declined by \$0.6 billion to \$3.6 billion in February 2003.

Budgetary revenues increased by \$0.3 billion, or 1.9 per cent. Among the various revenue components:

- Personal income tax revenues were up \$0.7 billion, or 11.7 per cent, primarily due to higher deductions from employment income, reflecting the strong growth in employment.
- Corporate income tax revenues were down \$0.9 billion, or 18.7 per cent, primarily reflecting the application of losses incurred in 2001, thereby reducing taxes owing with respect to the 2002 tax year.
- Employment insurance (EI) premium revenues were up \$0.1 billion, or 7.7 per cent, as the impact of the growth in the number of people employed and therefore paying premiums more than offset the effect of the decline in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).

- Excise taxes and duties were up \$0.3 billion, or 9.5 per cent, as higher goods and services tax (GST) revenues and other excise taxes and duties, as well as the introduction of the Air Travellers Security Charge, more than offset a decline in customs import duties.
- Non-tax revenues were down slightly on a year-over-year basis.

On a year-over-year basis, program spending was up \$1.1 billion, or 11.6 per cent.

- Transfers to persons increased \$0.2 billion, or 5.3 per cent, due to both higher EI and elderly benefits. The increase in EI benefits reflects the timing of payments, reversing the year-over-year decline in January.
- Transfers to other levels of government were up \$0.1 billion, or 6.5 per cent, primarily reflecting higher cash transfers under the CHST. This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.

Table 2

## Budgetary revenues

	February		Change	April to February		Change
	2002	2003		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,142	6,862	11.7	77,532	74,980	-3.3
Corporate income tax	4,903	3,986	-18.7	23,365	19,388	-17.0
Other income tax revenue	175	302	72.6	3,383	3,726	10.1
Total income tax	11,220	11,150	-0.6	104,280	98,094	-5.9
<b>Employment insurance premium revenues</b>	1,815	1,955	7.7	16,186	16,428	1.5
<b>Excise taxes and duties</b>						
Goods and services tax	2,028	2,277	12.3	23,693	27,299	15.2
Customs import duties	328	268	-18.6	2,760	2,931	6.2
Other excise taxes and duties	642	697	8.6	7,941	8,633	8.7
Air Travellers Security Charge		42			337	
Total excise taxes and duties	2,998	3,284	9.5	34,394	39,200	14.0
<b>Total tax revenues</b>	16,033	16,389	2.2	154,860	153,722	-0.7
<b>Non-tax revenues</b>	833	805	-3.2	7,645	7,578	-0.9
<b>Total budgetary revenues</b>	16,866	17,194	1.9	162,505	161,300	-0.7

- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up \$0.8 billion, or 20.0 per cent. Nearly half of this increase was attributable to higher transfers to the Crop Reinsurance Fund. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over-year basis, declined \$0.2 billion, or 5.0 per cent, due to a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

### April 2002 to February 2003: budgetary results

Over the first 11 months of fiscal year 2002-03, the budgetary surplus was estimated at \$14.8 billion, compared to a surplus of \$19.5 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first 11 months of 2002-03, budgetary revenues were down \$1.2 billion, or 0.7 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$2.6 billion, or 3.3 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. On a full accrual basis of accounting, these impacts will be recorded in the year in which the taxable activity took place. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	February		Change	April to February		Change
	2002	2003		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,140	2,233	4.3	23,207	24,106	3.9
Employment insurance benefits	1,282	1,372	7.0	12,373	13,018	5.2
Total	3,422	3,605	5.3	35,580	37,124	4.3
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	15,858	17,050	7.5
Fiscal transfers	1,036	1,052	1.5	11,433	11,484	0.4
Alternative Payments for Standing Programs	-233	-210	-9.9	-2,331	-2,312	-0.8
Total	2,245	2,392	6.5	24,960	26,222	5.1
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	106	505	376.4	715	1,200	67.8
Foreign Affairs	155	230	48.4	1,565	1,515	-3.2
Health	95	104	9.5	1,170	1,348	15.2
Human Resources Development	167	106	-36.5	1,546	1,313	-15.1
Indian and Northern Development	245	308	25.7	3,600	3,697	2.7
Industry and Regional Development	138	107	-22.5	1,322	1,589	20.2
Veterans Affairs	134	145	8.2	1,402	1,555	10.9
Other	153	136	-11.1	2,235	2,310	3.4
Total	1,193	1,641	37.6	13,555	14,527	7.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	50	80	60.0	966	994	2.9
Canada Mortgage and Housing Corporation	75	170	126.7	1,755	1,748	-0.4
Other	86	221	157.0	1,671	1,877	12.3
Total	211	471	123.2	4,392	4,619	5.2
Operating and capital expenditures						
Defence	681	792	16.3	8,502	8,777	3.2
All other departmental expenditures	1,865	1,835	-1.6	20,712	23,034	11.2
Total	2,546	2,627	3.2	29,214	31,811	8.9
Total direct program spending	3,950	4,739	20.0	47,161	50,957	8.0
<b>Total program expenditures</b>	9,617	10,736	11.6	107,701	114,303	6.1
<b>Public debt charges</b>	3,022	2,872	-5.0	35,302	32,231	-8.7
<b>Total budgetary expenditures</b>	12,639	13,608	7.7	143,003	146,534	2.5
Memorandum item:						
Total transfers	6,860	7,638	11.3	74,095	77,873	5.1



- Corporate income tax revenues were down \$4.0 billion, or 17.0 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid and lower taxes paid in the February 2003 settlement period, as a number of corporations reduced their 2002 tax liability by applying losses incurred in 2001.
- EI premium revenues were up \$0.2 billion, 1.5 per cent, as the impact of lower premium rates was more than offset by the impact of increases in employment and, therefore, more people paying premiums.
- Excise taxes and duties increased by \$4.8 billion, or 14.0 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 15.2 per cent compared to an increase in the applicable tax base—consumer expenditures—of about 6 per cent. Although the growth in gross GST revenues is broadly in line with the increase in the applicable tax base, refunds are virtually unchanged from the same period last year.
- Non-tax revenues were down 0.9 per cent from the same period last year.

Over the first 11 months of 2002–03, program spending increased by \$6.6 billion, or 6.1 per cent, compared to the same period of 2001–02.

- Transfers to persons were up \$1.5 billion, or 4.3 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up \$1.3 billion, or 5.1 per cent, due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.

- Direct program spending increased by \$3.8 billion, or 8.0 per cent. Subsidies and other transfers were up 7.2 per cent, primarily due to higher payments to farmers and veterans as well as increased transfers to the granting councils for university research activities. Payments to Crown corporations were up 5.2 per cent. Departmental and agency operating and capital spending was up 8.9 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$3.1 billion, or 8.7 per cent, reflecting a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

## **Financial requirement of \$0.6 billion (excluding foreign exchange transactions) for April 2002 to February 2003**

The budgetary balance in *The Fiscal Monitor* is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions resulted in a net requirement of \$15.4 billion in the first 11 months of 2002–03, compared to a net requirement of \$16.1 billion in the same period of 2001–02.

As a result, with a budgetary surplus of \$14.8 billion and a net requirement of \$15.4 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$0.6 billion in the April 2002 to February 2003 period, compared to a source of \$3.4 billion in the same period of 2001–02.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	February		April to February	
	2002	2003	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	4,227	3,586	19,502	14,766
<b>Loans, investments and advances</b>				
Crown corporations	7	0	551	354
Other	182	310	-1,157	-1,027
Total	189	310	-606	-673
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	1,032	915	-689	-10
Superannuation accounts	-194	61	-2,408	-552
Other	91	-49	197	116
Total	929	927	-2,900	-446
<b>Other transactions</b>	-2,507	-1,602	-12,629	-14,261
<b>Total non-budgetary transactions</b>	-1,389	-365	-16,134	-15,380
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,838	3,221	3,368	-614
<b>Foreign exchange transactions</b>	-626	3,042	-1,117	4,332
<b>Net financial balance</b>	2,212	6,263	2,251	3,718

Table 5

## Net financial balance and net borrowings

	February		April to February	
	2002	2003	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	2,212	6,263	2,251	3,718
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	2,982	1,190	-2,515	-8,127
Canada Savings Bonds	-133	-96	-2,870	-1,797
Treasury bills	600	-3,050	5,700	5,750
Other	-17	-	-63	19
Total	3,432	-1,956	252	-4,193
Payable in foreign currencies				
Marketable bonds	0	-3,188	-1,576	-4,768
Notes and loans	0		-514	
Canada bills	48	1	-3,288	-765
Canada notes	-158	0	-331	0
Total	-110	-3,187	-5,709	-5,533
<b>Net change in borrowings</b>	3,322	-5,143	-5,457	-9,726
<b>Change in cash balance</b>	5,534	1,120	-3,206	-6,008

## Net financial source of \$3.7 billion for April 2002 to February 2003

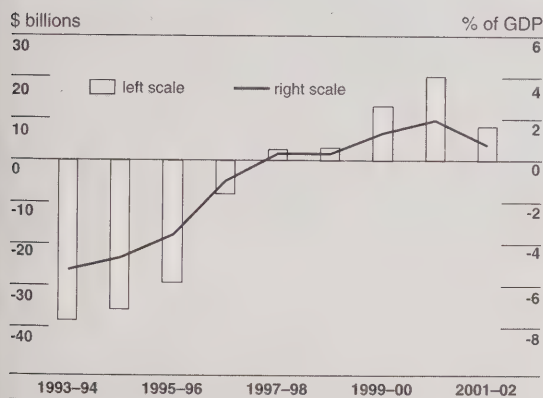
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$4.3 billion in the first 11 months of 2002–03, compared to a net requirement of \$1.1 billion in the same period of 2001–02.

With a budgetary surplus of \$14.8 billion, a net requirement of \$15.4 billion from non-budgetary transactions and a net source of \$4.3 billion from foreign exchange transactions, there was a net financial source of \$3.7 billion in the April 2002 to February 2003 period, compared to a net source of \$2.3 billion in the same period of 2001–02.

## Net borrowings down \$9.7 billion for April 2002 to February 2003

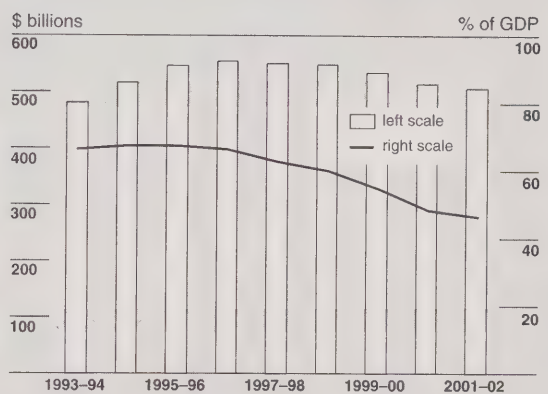
With this net financial source of \$3.7 billion and a reduction in cash balances of \$6.0 billion, the Government reduced its net borrowings by \$9.7 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

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## Note to readers:

The Government has implemented full accrual accounting in its annual financial statements. However, the monthly financial results for the balance of fiscal year 2002–03 will remain on a modified accrual basis of accounting. Until the monthly results are on full accrual, Table 6 “Condensed statement of assets and liabilities” will not be presented.

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April 2003



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2003: budgetary deficit of \$4.4 billion

There was a budgetary deficit of \$4.4 billion in March 2003, down \$0.4 billion from the deficit of \$4.8 billion in March 2002. A large deficit was expected in March, as these results are affected by the inclusion of personal income tax refunds relating to the previous taxation year. On a year-over-year basis, budgetary revenues increased by \$0.6 billion, or 4.9 per cent, program spending declined by \$0.1 billion, or 0.8 per cent, while public debt charges increased by \$0.2 billion, or 8.2 per cent.

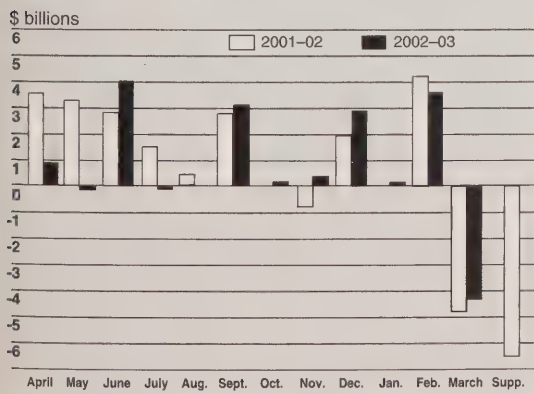
### April 2002 to March 2003: budgetary surplus of \$10.4 billion

The budgetary surplus was estimated at \$10.4 billion for the April 2002 to March 2003 period, down \$4.3 billion from the surplus of \$14.7 billion reported in the same period of 2001–02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds and lower final settlement payments, as corporations are applying losses experienced in 2001 to taxes paid in previous years or owing in 2002.

These are not the final results for the 2002–03 fiscal year. Still to come are the regular end-of-year adjustments, which incorporate the costs of liabilities incurred during the fiscal year for which no payments were made in 2002–03. This year these will include initiatives proposed in the February 2003 budget, including the \$2.5-billion Canada Health and Social Transfer (CHST) supplement, the \$1.5-billion Diagnostic/Medical Equipment Fund, \$0.6 billion for health information technology and \$0.5 billion to the Canada Foundation for Innovation, which will be charged to the 2002–03 fiscal year, pending passage of the budget legislation currently before Parliament. In addition, the monthly financial results to date for both 2001–02 and 2002–03 have been presented on a modified accrual basis of accounting. The 2003 budget estimates for these years as a whole were presented on a full accrual basis of accounting, and the final fiscal results for 2002–03 will be presented on a full accrual basis.

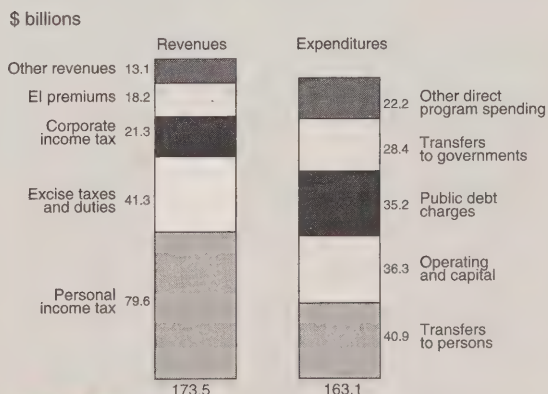
In 2001–02 end-of-year adjustments and the impact of moving to full accrual accounting reduced the budgetary surplus for the April 2001 to March 2002 period from \$14.7 billion to \$8.2 billion at fiscal year end. Taking these factors into consideration, the results to date are consistent with the expected outcome for 2002–03, as set out in the 2003 budget. Final results for 2002–03 will be released in the fall of 2003.

## Monthly surplus and deficit



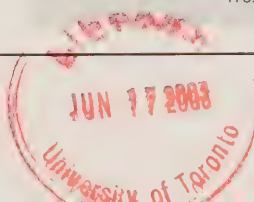
## Revenues and expenditures

(April 2002 to March 2003)



Department of Finance  
Canada

Ministère des Finances  
Canada



Canada

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	2002	2003	2001-02	2002-03
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	11,624	12,189	174,129	173,490
Program spending	-13,669	-13,558	-121,369	-127,862
Operating surplus	-2,045	-1,369	52,760	45,628
Public debt charges	-2,757	-2,982	-38,059	-35,213
Budgetary balance (deficit/surplus)	-4,802	-4,351	14,701	10,415
<b>Non-budgetary transactions</b>	7,244	6,970	-8,894	-8,416
<b>Financial requirements/source</b> (excluding foreign exchange transactions)	2,442	2,619	5,807	1,999
<b>Foreign exchange transactions</b>	-732	-421	-1,849	3,912
<b>Net financial balance</b>	1,710	2,198	3,958	5,911
<b>Net change in borrowings</b>	267	6,606	-5,189	-3,119
<b>Net change in cash balances</b>	1,977	8,804	-1,231	2,792
<b>Cash balance at end of period</b>			11,950	14,740

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for 2001-02 have been revised from those previously published.

### March 2003: budgetary results

The budgetary deficit was \$4.4 billion in March 2003, an improvement of \$0.4 billion from March 2002. This improvement is attributable to the timing of receipts between February and March and the inclusion in the March 2002 results of a number of policy initiatives announced in the December 2001 budget.

Budgetary revenues increased by \$0.6 billion, or 4.9 per cent, primarily due to stronger advances in personal and corporate income tax revenues. Among the various revenue components:

- Personal income tax revenues were up \$0.4 billion, or 9.0 per cent, due to higher deductions from employment income, reflecting the strong growth in employment, and a decline in refunds.
- Corporate income tax revenues were up \$0.6 billion, or 50.3 per cent, reversing most of the year-over-year decline in the previous month. This reflects the timing of receipts.

- Employment insurance (EI) premium revenues were virtually unchanged, as the impact of the growth in the number of people employed and therefore paying premiums was offset by the decline in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Excise taxes and duties were down \$0.4 billion, or 16.7 per cent, due to higher goods and services tax (GST) refunds. Net GST revenues were down \$0.6 billion, or 36.3 per cent. In contrast, customs import duties and other excise taxes and duties were somewhat higher.
- Non-tax revenues were down slightly on a year-over-year basis.

On a year-over-year basis, program spending was down \$0.1 billion, or 0.8 per cent. This decline is attributable to the impact of new policy initiatives announced in the December 2001 budget, which were included in the March 2002 results. In contrast, the new initiatives proposed in the February 2003 budget, totalling \$5.2 billion, will be included as part of the end-of-year adjustments, pending passage of the budget legislation.

Table 2

## Budgetary revenues

	March		Change	April to March		Change
	2002	2003		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	4,228	4,609	9.0	81,760	79,589	-2.7
Corporate income tax	1,272	1,912	50.3	24,637	21,300	-13.5
Other income tax revenue	655	634	-3.2	4,038	4,360	8.0
Total income tax	6,155	7,155	16.2	110,435	105,249	-4.7
<b>Employment insurance premium revenues</b>	1,774	1,775	0.1	17,960	18,203	1.4
<b>Excise taxes and duties</b>						
Goods and services tax	1,582	1,007	-36.3	25,275	28,307	12.0
Customs import duties	220	272	23.6	2,979	3,203	7.5
Other excise taxes and duties	700	763	9.0	8,641	9,398	8.8
Air Travellers Security Charge		42			379	
Total excise taxes and duties	2,502	2,084	-16.7	36,895	41,287	11.9
<b>Total tax revenues</b>	10,431	11,014	5.6	165,290	164,739	-0.3
<b>Non-tax revenues</b>	1,193	1,175	-1.5	8,839	8,751	-1.0
<b>Total budgetary revenues</b>	11,624	12,189	4.9	174,129	173,490	-0.4

- Transfers to persons increased \$0.2 billion, or 4.9 per cent, attributable to both higher EI and elderly benefits.
- Transfers to other levels of government were up \$0.2 billion, or 12.3 per cent, reflecting higher entitlements under both the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was down \$0.5 billion, or 6.5 per cent. Subsidies and other transfers declined \$0.3 billion, primarily due to the impact of the December 2001 budget initiatives on the March 2002 results. Defence spending was also lower due to incremental costs in March 2002 for security measures.

Public debt charges, on a year-over year basis, were up \$0.2 billion, or 8.2 per cent, due to an increase in the stock of interest-bearing debt.

### April 2002 to March 2003: budgetary results

Over the April 2002 to March 2003 period, the budgetary surplus was estimated at \$10.4 billion, compared to a surplus of \$14.7 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the April 2002 to March 2003 period, budgetary revenues were down \$0.6 billion, or 0.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$2.2 billion, or 2.7 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001.



# The Fiscal Monitor

Table 3

## Budgetary expenditures

	March		Change	April to March		Change
	2002	2003		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,157	2,238	3.8	25,364	26,344	3.9
Employment insurance benefits	1,479	1,576	6.6	13,852	14,594	5.4
Total	3,636	3,814	4.9	39,216	40,938	4.4
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	17,300	18,600	7.5
Fiscal transfers	713	820	15.0	12,146	12,304	1.3
Alternative Payments for Standing Programs	-232	-210	-9.5	-2,563	-2,522	-1.6
Total	1,923	2,160	12.3	26,883	28,382	5.6
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	84	193	129.8	798	1,393	74.6
Foreign Affairs	566	742	31.1	2,131	2,256	5.9
Health	317	163	-48.6	1,486	1,511	1.7
Human Resources Development	165	138	-16.4	1,711	1,451	-15.2
Indian and Northern Development	345	454	31.6	3,944	4,151	5.2
Industry and Regional Development	836	370	-55.7	2,157	1,959	-9.2
Veterans Affairs	144	139	-3.5	1,547	1,694	9.5
Other	583	492	-15.6	2,817	2,800	-0.6
Total	3,040	2,691	-11.5	16,591	17,215	3.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	15	57	280.0	981	1,051	7.1
Canada Mortgage and Housing Corporation	168	165	-1.8	1,923	1,913	-0.5
Other	197	167	-15.2	1,867	2,045	9.5
Total	380	389	2.4	4,771	5,009	5.0
Operating and capital expenditures						
Defence	1,527	1,278	-16.3	10,031	10,055	0.2
All other departmental expenditures	3,163	3,226	2.0	23,877	26,263	10.0
Total	4,690	4,504	-4.0	33,908	36,318	7.1
Total direct program spending	8,110	7,584	-6.5	55,270	58,542	5.9
<b>Total program expenditures</b>	13,669	13,558	-0.8	121,369	127,862	5.3
<b>Public debt charges</b>	2,757	2,982	8.2	38,059	35,213	-7.5
<b>Total budgetary expenditures</b>	16,426	16,540	0.7	159,428	163,075	2.3
Memorandum item:						
Total transfers	8,599	8,665	0.8	82,690	86,535	4.6



However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. On a full accrual basis of accounting, these impacts will be recorded in the year in which the taxable activity took place. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down \$3.3 billion, or 13.5 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid and lower taxes paid in the 2003 settlement periods, as a number of corporations reduced their 2002 tax liability by applying losses incurred in 2001.
- EI premium revenues were up \$0.2 billion, or 1.4 per cent, as the impact of lower premium rates was more than offset by the impact of increases in employment and, therefore, more people paying premiums.
- Excise taxes and duties increased by \$4.4 billion, or 11.9 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 12.0 per cent compared to an increase in the applicable tax base—consumer expenditures—of about 6 per cent. Although the growth in gross GST revenues is broadly in line with the increase in the applicable tax base, the growth in refunds was about half that expected. This is primarily attributable to the timing of refunds between March 2002 and April 2002, which depressed net GST collections in 2001–02.
- Non-tax revenues were down 1.0 per cent from the same period last year.

Over the April 2002 to March 2003 period, program spending increased by \$6.5 billion, or 5.3 per cent, compared to the same period last year.

- Transfers to persons were up \$1.7 billion, or 4.4 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up \$1.5 billion, or 5.6 per cent, due to higher transfers under the CHST. These results do not include the proposed \$2.5-billion CHST supplement and the \$1.5-billion Diagnostic/Medical Equipment Fund. Based on government accounting policies, these will be included in the end-of-year results, pending passage of budget legislation.
- Direct program spending increased by \$3.3 billion, or 5.9 per cent. Subsidies and other transfers were up 3.8 per cent, primarily due to higher payments to farmers and veterans. Payments to Crown corporations were up 5.0 per cent. Departmental and agency operating and capital spending was up 7.1 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.8 billion, or 7.5 per cent, reflecting a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

## **Financial source of \$2.0 billion (excluding foreign exchange transactions) for April 2002 to March 2003**

The budgetary balance in *The Fiscal Monitor* is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	March		April to March	
	2002	2003	2001-02	2002-03
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-4,802	-4,351	14,701	10,415
<b>Loans, investments and advances</b>				
Crown corporations	371	-204	923	150
Other	-111	119	-1,268	-908
Total	260	-85	-345	-758
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	1,053	1,185	365	1,175
Superannuation accounts	-285	97	-2,694	-457
Other	5	52	201	167
Total	773	1,334	-2,128	885
<b>Other transactions</b>	6,211	5,720	-6,421	-8,543
<b>Total non-budgetary transactions</b>	7,244	6,970	-8,894	-8,416
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,442	2,619	5,807	1,999
<b>Foreign exchange transactions</b>	-732	-421	-1,849	3,912
<b>Net financial balance</b>	1,710	2,198	3,958	5,911

Table 5

## Net financial balance and net borrowings

	March		April to March	
	2002	2003	2001-02	2002-03
(\$ millions)				
<b>Net financial balance</b>	1,710	2,198	3,958	5,911
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	916	2,456	-1,598	-5,671
Canada Savings Bonds	-16	-135	-2,886	-1,932
Treasury bills	-200	4,650	5,500	10,400
Other	-20	-1	-83	-19
Total	680	6,970	933	2,778
Payable in foreign currencies				
Marketable bonds	218	-490	-1,358	-5,258
Notes and loans	0	72	-514	72
Canada bills	-584	12	-3,872	-753
Canada notes	-47	42	-378	42
Total	-413	-364	-6,122	-5,897
<b>Net change in borrowings</b>	267	6,606	-5,189	-3,119
<b>Change in cash balance</b>	1,977	8,804	-1,231	2,792

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions resulted in a net requirement of \$8.4 billion in the April 2002 to March 2003 period, compared to a net requirement of \$8.9 billion in the same period of 2001–02.

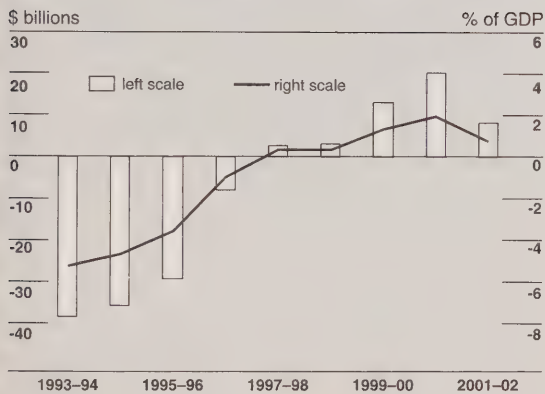
As a result, with a budgetary surplus of \$10.4 billion and a net requirement of \$8.4 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$2.0 billion in the April 2002 to March 2003 period, compared to a source of \$5.8 billion in the same period of 2001–02.

## Net financial source of \$5.9 billion for April 2002 to March 2003

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$3.9 billion in the April 2002 to March 2003 period, compared to a net requirement of \$1.8 billion in the same period of 2001–02.

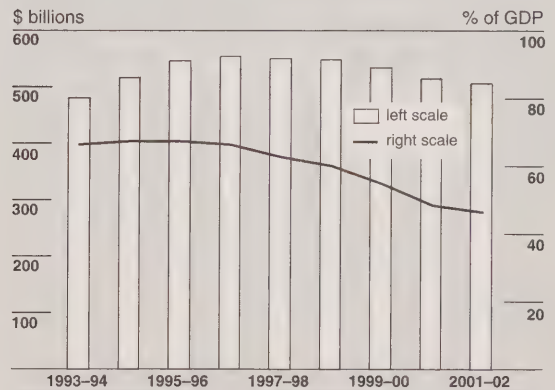
With a budgetary surplus of \$10.4 billion, a net requirement of \$8.4 billion from non-budgetary transactions and a net source of \$3.9 billion from foreign exchange transactions, there was a net financial source of \$5.9 billion in the April 2002 to March 2003 period, compared to a net source of \$4.0 billion in the same period of 2001–02.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

## **Net borrowings down \$3.1 billion for April 2002 to March 2003**

With this net financial source of \$5.9 billion, the Government reduced its net borrowings by \$3.1 billion and increased its cash balances by \$2.8 billion. Cash balances at March 31, 2003, stood at \$14.7 billion.

### **Note to readers:**

The Government has implemented full accrual accounting in its annual financial statements. However, the monthly financial results for the balance of fiscal year 2002–03 will remain on a modified accrual basis of accounting. Until the monthly results are on full accrual, Table 6 “Condensed statement of assets and liabilities” will not be presented.



# The Fiscal Monitor

A Publication of the Department of Finance

## Note to readers

Beginning with this *Fiscal Monitor*, the financial results will be presented on full accrual accounting. This has necessitated a recasting of the previously published monthly financial results for 2002-03. It has also resulted in a number of classification and terminology changes. The Statement of Assets and Liabilities will be presented once final results for 2002-03 are published.

In the 2003 budget, the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously, the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and the recognition of non-financial, or capital, assets. Tax revenues are now primarily accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).

## Budgetary surplus of \$0.4 billion in April 2003

There was a budgetary surplus of \$0.4 billion in April 2003, up from a restated deficit of \$0.2 billion in April 2002. This \$0.6-billion year-over-year improvement in the budgetary balance was attributable to higher budgetary revenues (up \$1.1 billion) and lower public debt charges (down \$0.2 billion), offset in part by higher program expenses (up \$0.7 billion).

The increase in budgetary revenues, on a year-over-year basis, was due primarily to higher goods and services and corporate income tax revenues.

- Goods and services tax revenues were up \$0.5 billion, or 25.0 per cent, reflecting both an increase in the base subject to taxation and lower refunds.

- Corporate income tax revenues were up \$0.4 billion, or 29.4 per cent, attributable to higher installment payments—reflecting the strong growth in corporate profits in 2003—and lower refunds. As noted in the 2003 budget, the data to convert corporate tax revenues to accruals are not available in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.
- Among the remaining major revenue components, personal income tax collections were up marginally (\$0.1 billion, or 1.9 per cent), as employment, and therefore the number of Canadians paying taxes, was up over last year. Employment insurance premiums were marginally higher, also attributable to the increase in employment, which more than offset the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings, compared to \$2.20 in 2002).



# The Fiscal Monitor

On a year-over-year basis, the \$0.7-billion increase in program expenses was largely due to higher transfer payments, up \$0.5 billion.

Among the major transfers:

- Major transfers to persons were up \$0.1 billion, or 3.3 per cent. The increase in elderly benefits reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefits was attributable to higher regular benefits, reflecting an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$0.2 billion, or 7.4 per cent, primarily attributable to higher cash transfers under the Canada Health and Social Transfer, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04.
- Subsidies and other transfers increased by \$0.2 billion, primarily reflecting higher international assistance transfers.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations.

On a year-over-year basis, these expenses were up \$0.2 billion, or 6.2 per cent, reflecting the impact of increased operating costs as well as policy initiatives announced in previous budgets.

Public debt charges were down \$0.2 billion, or 6.0 per cent, attributable to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

## Financial requirement of \$4.9 billion in April 2003

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets, and its loans, financial investments and advances, as well as from other activities, including paying accounts payable and collecting accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirements is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.3 billion in April 2003, down \$0.3 billion from the requirement in April 2002. Traditionally, there is a large requirement in the month of April, primarily reflecting the payment of accounts payable.

With a budgetary surplus of \$0.4 billion and a net requirement of \$5.3 billion from non-budgetary transactions, there was a financial requirement of \$4.9 billion in April 2003, down \$0.3 billion from April 2002.

## Revenues and expenditures

(April 2002 and 2003)

\$ billions

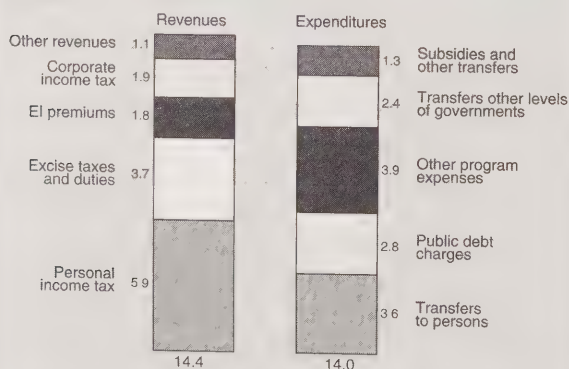


Table 3  
Budgetary expenditures

	April		Change
	2002	2003	
	(\$ millions)		(%)
<b>Transfer payments to:</b>			
Persons			
Elderly benefits	2,114	2,201	4.1
Employment insurance benefits	1,402	1,431	2.1
Total	3,516	3,632	3.3
Other levels of government			
Canada Health and Social Transfer	1,550	1,692	9.2
Fiscal transfers	877	879	0.2
Alternative Payments for Standing Programs	-210	-191	-9.0
Total	2,217	2,380	7.4
Subsidies and other transfers			
Agriculture	16	4	-75.0
Foreign Affairs	41	199	385.4
Health	110	95	-13.6
Human Resources Development	70	134	91.4
Indian and Northern Development	609	600	-1.5
Industry and Regional Development	109	100	-8.3
Other	184	187	1.6
Total	1,139	1,319	15.8
Total transfer payments	6,872	7,331	6.7
Other program expenses			
Crown corporation expenses			
Canadian Broadcasting Corporation	182	178	-2.2
Canada Mortgage and Housing Corporation	171	205	19.9
Other	225	257	14.2
Total	578	640	10.7
Defence	789	815	3.3
All other departments and agencies	2,267	2,406	6.1
Total direct program spending	3,634	3,861	6.2
<b>Total program expenses</b>	10,506	11,192	6.5
<b>Public debt charges</b>	3,002	2,822	-6.0
<b>Total budgetary expenditures</b>	13,508	14,014	3.7



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	April	
	2002	2003
	(\$ millions)	
<b>Budgetary transactions</b>		
Revenues	13,349	14,438
Expenses		
Program expenses	-10,506	-11,192
Public debt charges	-3,002	-2,822
Budgetary balance (deficit/surplus) <sup>1</sup>	-159	424
<b>Non-budgetary transactions</b>	-5,034	-5,294
<b>Financial source/requirements</b>	-5,193	-4,870
<b>Net change in financing activities</b>	-1,095	-4,287
<b>Net change in cash balances</b>	-6,288	-9,157
<b>Cash balance at end of period</b>	5,661	5,543

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$0.9 billion was recorded for April 2002.

Table 2

## Budgetary revenues

	April		Change
	2002	2003	
	(\$ millions)		(%)
<b>Tax Revenues</b>			
<b>Income taxes</b>			
Personal income tax	5,811	5,920	1.9
Corporate income tax	1,447	1,873	29.4
Other income tax revenue	183	289	57.9
Total income tax	7,441	8,082	8.6
<b>Excise taxes and duties</b>			
Goods and services tax	2,182	2,728	25.0
Customs import duties	257	243	-5.4
Sales and excise taxes	705	733	4.0
Air Travellers Security Charge	27	45	66.7
Total excise taxes and duties	3,171	3,749	18.2
<b>Total tax revenues</b>	10,612	11,831	11.5
<b>Employment insurance premium</b>	1,760	1,771	0.6
<b>Other revenues</b>	977	836	-14.4
<b>Total budgetary revenues</b>	13,349	14,438	8.2

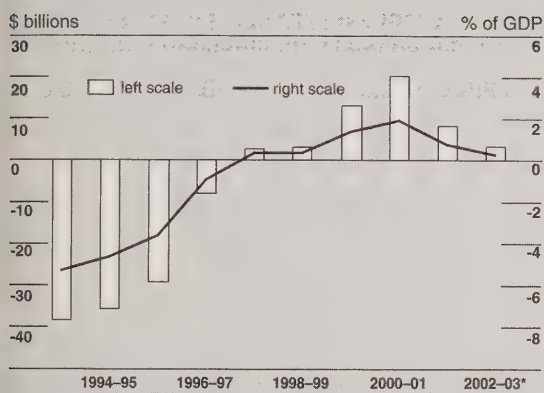


## Net financing activities down \$4.3 billion

This financial requirement of \$4.9 billion was financed by a draw down in cash balances. In addition, the Government reduced its cash balances by a further \$4.3 billion to lower its interest-bearing debt. Cash balances at the end of April 2003 stood at \$5.5 billion, down \$9.1 billion from the previous period. The level of cash

balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

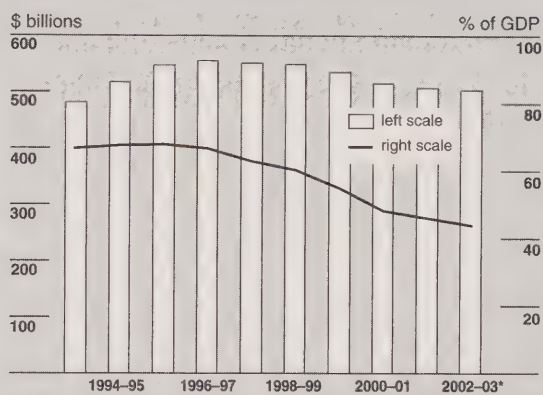
## Budgetary balance



Sources: Department of Finance and Statistics Canada.

\*Assumes budgetary surplus of \$3 billion.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

\*Assumes budgetary surplus of \$3 billion.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial source/requirement

	April	
	2002	2003
	(\$ millions)	
<b>Budgetary balance (deficit/surplus)</b>	-159	424
<b>Non-budgetary transactions</b>		
Capital investing activities	-20	-22
Other investing activities	-72	-213
Other activities		
Accounts payable, receivables, accruals, and allowances	-4,321	-5,161
Foreign exchange activities	-835	-106
Amortization of tangible capital assets	214	208
Total other activities	-4,942	-5,059
<b>Total non-budgetary transactions</b>	-5,034	-5,294
<b>Net financial source/requirement</b>	-5,193	-4,870

Table 5

## Financial source/requirement and net financing activities

	April	
	2002	2003
	(\$ millions)	
<b>Net financial source/requirement</b>	-5,193	-4,870
<b>Net increase (+)/decrease (-) in financing activities</b>		
Canadian currency borrowings		
Marketable bonds	-5,200	-1,054
Treasury bills	4,300	-3,500
Canada Savings Bonds	-57	-94
Other	0	0
Total	-957	-4,648
Foreign currency borrowings	17	-51
Pension and other accounts	-155	412
<b>Net change in financing activities</b>	-1,095	-4,287
<b>Change in cash balance</b>	-6,288	-9,157

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August 2003

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### May 2003: budgetary surplus of \$166 million

There was a budgetary surplus of \$166 million in May 2003, compared to a restated deficit of \$250 million in May 2002. This year-over-year improvement in the budgetary balance was attributable to higher budgetary revenues (up \$0.9 billion) and lower public debt charges (down \$0.2 billion), offset in part by higher program expenses (up \$0.7 billion).

### April and May 2003: budgetary surplus of \$590 million

The budgetary surplus was estimated at \$590 million for the April and May 2003 period, compared to a deficit of \$409 million reported for the same period of 2002–03. This year-over-year improvement of \$1.0 billion was attributable to higher budgetary revenues (up \$2.0 billion) and lower public debt charges (down \$0.4 billion), offset in part by higher program spending (up \$1.4 billion).

## May 2003: budgetary results

The May 2003 increase in budgetary revenues of \$0.9 billion or 6.7 per cent, on a year-over-year basis, was primarily due to higher corporate income tax and other revenues.

- Corporate income tax revenues were up \$0.6 billion, or 35.7 per cent, attributable to higher installment payments—reflecting the strong growth in corporate profits in 2003—and lower refunds. As noted in the 2003 budget, the data to convert corporate tax revenues to accruals are not available in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.
- Other revenues, consisting of revenues from Crown corporations and sales of goods and services and foreign exchange revenues, increased by \$0.4 billion, or 47.4 per cent.
- Personal income tax collections were up marginally (\$0.1 billion, or 1.4 per cent), as employment, and therefore the number of Canadians paying taxes, was up over last year.
- Excise taxes and duties declined by \$0.2 billion or 7.3 per cent, with all components, except the Air Travellers Security Charge, lower than in May 2002. The decline in goods and services tax (GST) revenues was primarily attributable to

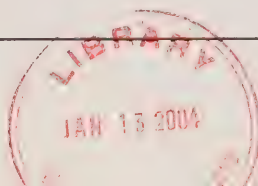
timing factors in the receipt of gross collections between April and May. On a monthly basis, cash received is used as a proxy for the accrual, with adjustments made at year end.

- Employment insurance (EI) premiums were marginally higher, attributable to the increase in employment, which more than offset the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).

On a year-over-year basis, program spending in May 2003 was \$0.7 billion higher than in May 2002, reflecting increases in both transfer payments and other program expenses.

Transfer payments increased by \$0.3 billion, on a year-over-year basis.

- Major transfers to persons were up \$62 million, or 1.9 per cent. The increase in elderly benefits reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefits was attributable to higher regular benefits, reflecting an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$120 million, or 4.8 per cent, primarily attributable to higher cash transfers under the Canada Health and Social Transfer, reflecting





the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04.

- Subsidies and other transfers increased by \$113 million, primarily reflecting the impact of budget measures.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were up \$0.4 billion, or 10.2 per cent, reflecting the impact of increased operating costs as well as policy initiatives announced in previous budgets.

Public debt charges were down \$0.2 billion, or 6.6 per cent, attributable to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

## April to May 2003: budgetary results

In the first two months of the 2003–04 fiscal year, there was a budgetary surplus of \$590 million—a year-over-year improvement of \$999 million from the deficit of \$409 million reported in the same period in the previous fiscal year.

On a year-over-year basis, budgetary revenues were up \$2.0 billion, or 7.4 per cent, with half the increase attributable to higher corporate income tax revenues, reflecting the strong growth in corporate profits. Among the other major components, personal income tax revenues increased by \$0.2 billion, or 1.7 per cent, primarily reflecting higher tax deductions from employment income, while

excise taxes and duties increased by \$0.3 billion, or 5.3 per cent, primarily due to higher GST revenues. The increase in GST revenues was primarily attributable to lower refunds. Other revenues increased by \$0.3 billion, or 15.3 per cent.

On a year-over-year basis, program spending was up \$1.3 billion, or 6.5 per cent. Transfer payments increased by \$0.8 billion, while other program expenses were up \$0.6 billion. These increases were primarily attributable to new policy initiatives introduced in the last budget as well as higher operating costs.

## Financial requirement of \$3.2 billion in April to May 2003 period

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash requirements/source resulting from the Government's investing activities through its acquisition of capital assets, and its loans, financial investments and advances, as well as from other activities, including paying accounts payable and collecting accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial requirements/source is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.8 billion in the first two months of 2003–04, down \$0.6 billion from the requirement in the same period last year. Traditionally, there is a large requirement in the first few months of the fiscal year, primarily reflecting the payment of accounts payable. The year-over-year improvement was primarily due to a lower requirement from foreign exchange activities than in the same period last year.

## Revenues and expenditures

(April and May 2002 and 2003)

\$ billions

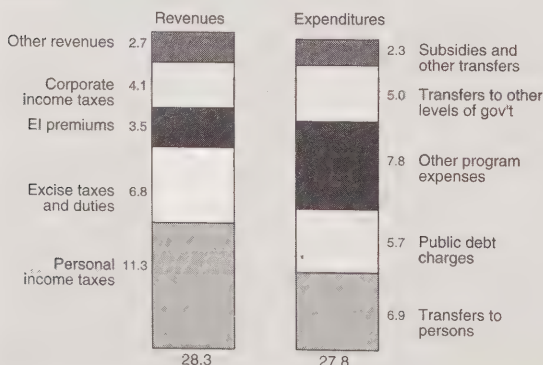




Table 3

## Budgetary expenditures

	May			April to May		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,160	2,208	2.2	4,273	4,409	3.2
Employment insurance benefits	1,069	1,083	1.3	2,471	2,514	1.7
Total	3,229	3,291	1.9	6,744	6,923	2.7
Other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	3,100	3,384	9.2
Fiscal transfers	1,164	1,123	-3.5	2,040	2,002	-1.9
Alternative Payments for Standing Programs	-210	-191	-9.0	-420	-382	-9.0
Total	2,504	2,623	4.8	4,720	5,004	6.0
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	40	3	-92.5	57	8	-86.0
Foreign Affairs	86	98	14.0	125	297	137.6
Health	132	151	14.4	242	246	1.7
Human Resources Development	111	98	-11.7	181	232	28.2
Indian and Northern Development	253	309	22.1	862	909	5.5
Industry and Regional Development	59	131	122.0	168	230	36.9
Other	178	182	2.2	358	370	3.4
Total	859	972	13.2	1,993	2,292	15.0
Total transfer payments	6,592	6,886	4.5	13,457	14,219	5.7
<b>Other program expenses:</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	76	87	14.5	258	265	2.7
Canada Mortgage and Housing Corporation	159	213	34.0	330	418	26.7
Other	134	166	23.9	360	426	18.3
Total	369	466	26.3	948	1,109	17.0
Defence	839	822	-2.0	1,629	1,637	0.5
All other departments and agencies	2,395	2,681	11.9	4,668	5,082	8.9
Total other program expenses	3,603	3,969	10.2	7,245	7,828	8.0
<b>Total program expenses</b>	10,195	10,855	6.5	20,702	22,047	6.5
<b>Public debt charges</b>	3,088	2,884	-6.6	6,089	5,706	-6.3
<b>Total budgetary expenses</b>	13,283	13,739	3.4	26,791	27,753	3.6

# The Fiscal Monitor

Table 1

## Summary statement of transactions

	May		April to May	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	13,033	13,905	26,382	28,343
Expenses				
Program expenses	-10,175	-10,855	-20,702	-22,047
Public debt charges	-3,088	-2,884	-6,089	-5,706
Budgetary balance (deficit/surplus) <sup>1</sup>	-250	166	-409	590
<b>Non-budgetary transactions</b>	652	1,503	-4,381	-3,792
<b>Financial source/requirement</b>	402	1,669	-4,790	-3,202
<b>Net change in financing activities</b>	6,792	7,781	5,698	3,495
<b>Net change in cash balances</b>	7,194	9,450	908	293
<b>Cash balance at end of period</b>			12,856	14,994

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a deficit of \$116 million was recorded for May 2002.

Table 2

## Budgetary revenues

	May		Change	April to May		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,319	5,395	1.4	11,130	11,315	1.7
Corporate income tax	1,609	2,184	35.7	3,056	4,057	32.8
Other income tax revenue	186	205	10.2	369	494	33.9
Total income tax	7,114	7,784	9.4	14,555	15,866	9.0
<b>Excise taxes and duties</b>						
Goods and services tax	2,211	1,970	-10.9	4,393	4,698	6.9
Customs import duties	231	209	-9.5	488	453	-7.2
Sales and excise taxes	799	793	-0.8	1,504	1,526	1.5
Air Travellers Security Charge	20	50	150.0	47	95	102.1
Total excise taxes and duties	3,261	3,022	-7.3	6,432	6,772	5.3
<b>Total tax revenues</b>	10,375	10,806	4.2	20,987	22,638	7.9
<b>Employment insurance premiums</b>	1,751	1,762	0.6	3,511	3,533	0.6
<b>Other revenues</b>	907	1,337	47.4	1,884	2,172	15.3
<b>Total budgetary revenues</b>	13,033	13,905	6.7	26,382	28,343	7.4

With a budgetary surplus of \$0.6 billion and a net requirement of \$3.8 billion from non-budgetary transactions, there was a financial requirement of \$3.2 billion in the April to May 2003 period, down \$1.6 billion from the same period last year.

## Net financing activities up \$3.5 billion

This financial requirement of \$3.7 billion was financed by an increase in the Government's net financing activities, primarily through an increase in Canadian currency borrowings. The net change in financing activities was \$3.5 billion, allowing the Government to increase its cash balances by \$0.3 billion. Cash balances at the end of May 2003 stood at \$15.0 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

## Note to Readers

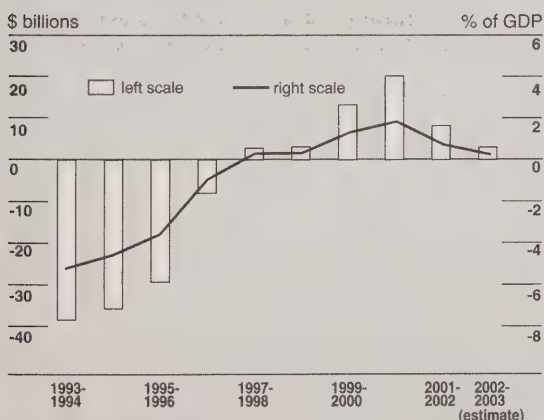
Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on full accrual accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes. The Statement of Assets and Liabilities will be presented once final results for 2002–03 are published.

In the 2003 budget, the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously, the

Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

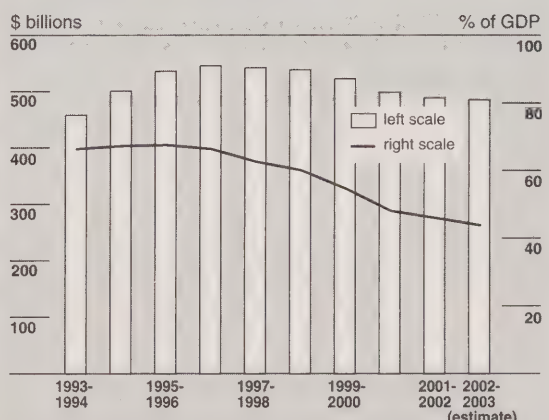
The shift to full accrual accounting primarily affects tax revenues and the recognition of non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	May		April to May	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-250	166	-409	590
<b>Non-budgetary transactions</b>				
Capital investing activities	-171	-185	-191	-207
Other investing activities	65	89	-6	-124
Other activities				
Accounts payable, receivables, accruals and allowances	694	1,497	-3,627	-3,665
Foreign exchange activities	-130	-106	-965	-212
Amortization of tangible capital assets	194	208	408	416
Total other activities	758	1,599	-4,184	-3,461
<b>Total non-budgetary transactions</b>	652	1,503	-4,381	-3,792
<b>Net financial source/requirement</b>	402	1,669	-4,790	-3,202

Table 5

## Net financial balance and net borrowings

	May		April to May	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Net financial source/requirement</b>	402	1,669	-4,790	-3,202
Net increase (+)/decrease (-) in financing activities				
Canadian currency borrowings				
Marketable bonds	3,045	1,693	-2,155	641
Treasury bills	3,700	6,000	8,000	2,500
Canada Savings Bonds	-94	-138	-151	-232
Other	-2	-5	-2	-5
Total	6,649	7,550	5,692	2,904
Foreign currency borrowings	-211	-181	-194	-232
Pension and other accounts	354	412	200	823
<b>Net change in financing activities</b>	6,792	7,781	5,698	3,495
<b>Change in cash balance</b>	7,194	9,450	908	293

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August 2003



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### June 2003: budgetary surplus of \$2.6 billion

There was a budgetary surplus of \$2.6 billion in June 2003, compared to a restated surplus of \$3.8 billion in June 2002. Large surpluses have typically been recorded in June, primarily reflecting the inclusion of personal income tax instalments from quarterly filers. The year-over-year decline in the budgetary balance of \$1.2 billion is attributable to lower budgetary revenues (down \$0.5 billion) and higher program expenses (up \$0.9 billion), partially offset by lower public debt charges (down \$0.2 billion).

### April to June 2003: budgetary surplus of \$3.2 billion

The budgetary surplus is estimated at \$3.2 billion for the April to June 2003 period, down \$0.2 billion from the surplus of \$3.4 billion reported in the same period of 2002-03. Among the major components, budgetary revenues were up \$1.5 billion, program expenses were up \$2.3 billion while public debt charges were \$0.6 billion lower.

### June 2003: budgetary results

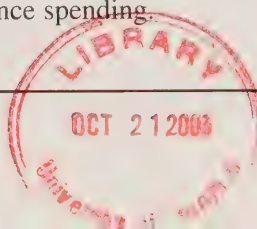
The June 2003 budgetary surplus is estimated at \$2.6 billion, down \$1.2 billion from June 2002. Budgetary revenues, at \$16.5 billion, were down \$0.5 billion, or 3.0 per cent, primarily reflecting lower corporate income tax and other revenues.

- Personal income tax revenues increased 0.3 per cent. The June results include quarterly instalment payments, primarily from the self-employed and pensioners. These payments were slightly lower this year, primarily reflecting lower interest and dividend income. This was more than offset by higher tax remittances from employment income, reflecting the increase in the number of people employed.
- Corporate income tax revenues were down \$0.5 billion, or 22.1 per cent, down sharply from the strong year-over-year gains reported in each of the previous two months. The year-over-year decline is attributable to lower instalment payments and higher refunds. As noted in the 2003 budget, the data to convert corporate tax revenues to accrual are not available in order to present the

financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.

- Excise taxes and duties increased by \$0.3 billion or 9.2 per cent, primarily reflecting higher goods and services tax (GST) revenues, up \$0.4 billion or 16.3 per cent, largely due to timing factors. On a monthly basis, cash received is used as a proxy for the accrual numbers, with adjustments made at year-end.
- Employment insurance (EI) premiums were marginally lower due to the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Other revenues, consisting of revenues from Crown corporations and sales of goods and services and foreign exchange revenues, declined \$0.3 billion, or 22.8 per cent.

On a year-over-year basis, program expenses in June 2003 were \$0.9 billion, or 9.1 per cent, higher than in June 2002. All major components were higher, with the exception of defence spending.



# The Fiscal Monitor

Transfer payments increased by \$0.5 billion, or 8.5 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$149 million, or 4.8 per cent. The increase in elderly benefits reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefits is attributable to higher regular benefits, reflecting an increase in the number of beneficiaries.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up \$106 million, or 4.4 per cent. The year-over-year increase is attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04, and lower recoveries under the Alternative Payments for Standing Programs. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were lower, reflecting lower equalization transfers due to improved economic developments in the eligible provinces.
- Subsidies and other transfers increased by \$286 million, primarily reflecting the impact of budget measures.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were up \$0.4 billion, or 10.1 per cent, reflecting the impact of increased operating costs as well as policy initiatives announced in previous budgets.

Public debt charges were down \$0.2 billion, or 7.3 per cent, due to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

## April to June 2003: budgetary results

In the first three months of the 2003–04 fiscal year, there was a budgetary surplus of \$3.2 billion—a year-over-year deterioration of \$0.2 billion from the surplus of \$3.4 billion reported in the same period last year.

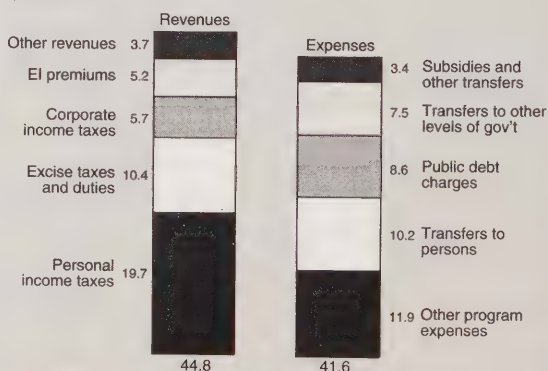
On a year-over-year basis, budgetary revenues were up \$1.5 billion, or 3.3 per cent.

- Personal income tax revenues were up \$0.2 billion, or 1.1 per cent. This increase is attributable to higher tax remittances from employment income as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was somewhat dampened by lower remittances from quarterly filers and the reduction in tax rates announced in previous budgets.
- Corporate income taxes were up \$0.5 billion, or 10.1 per cent, due to higher instalment payments—reflecting the strong growth in corporate profits in 2003—and lower refunds. Lower tax rates, as announced in previous budgets, dampened the overall increase.
- Excise taxes and duties increased \$0.7 billion, or 6.7 per cent, as all components, with the exception of customs import duties, were higher. GST revenues were up \$0.7 billion, or 10.1 per cent, primarily attributable to an increase in gross collections, reflecting continued strong consumer demand and somewhat lower refunds.

## Revenues and expenses

(April to June 2003)

\$ billions





- EI premiums were virtually unchanged, as the reduction in premium rates offset the impact of the increase in the number of people employed.
- Other revenues were also virtually unchanged.

On a year-over-year basis, program expenses in the April to June 2003 period were up \$2.3 billion, or 7.4 per cent, over the same period last year.

Transfer payments increased by \$1.3 billion, or 6.5 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.3 billion or 3.3 per cent, with increases in both components.
- Major transfers to other levels of government increased by \$0.4 billion, or 5.5 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.6 billion, or 20.5 per cent, primarily reflecting the impact of budget measures.

Other program expenses increased by \$1.0 billion, or 9.0 per cent. Within this component, defence spending was lower, reflecting higher security-related spending in the first part of 2002–03. The increases in Crown corporation expenses and in all other departmental and agency program expenses were primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

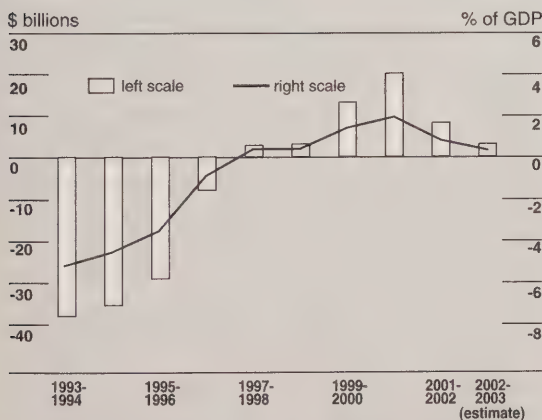
## Financial requirement of \$10.4 billion for April to June 2003

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

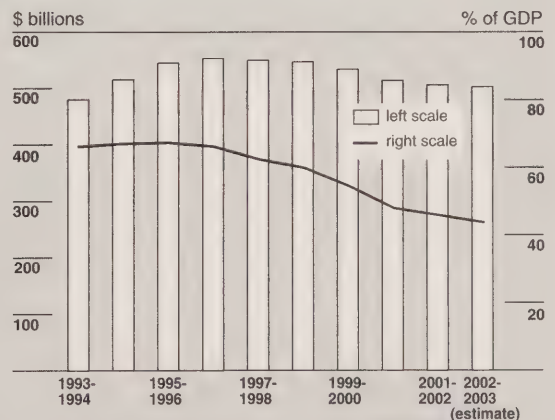
Non-budgetary transactions resulted in a net requirement of \$13.6 billion in the first three months of 2003–04, up \$1.6 billion from the requirement in the same period last year. This increase primarily reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Diagnostic/Medical Equipment Fund (\$1.5 billion). The impact of these payments was somewhat offset by a lower requirement from foreign exchange activities than in the same period last year. The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments had no impact on the June 2003 budgetary balance.

With a budgetary surplus of \$3.2 billion and a net requirement of \$13.6 billion from non-budgetary transactions, there was a financial requirement of \$10.4 billion in the April to June 2003 period, up \$1.9 billion from the same period last year.

## **Net financing activities up \$0.3 billion**

This financial requirement of \$10.4 billion was financed by a reduction in the Government's cash balances of \$10.1 billion and an increase of \$0.3 billion in net financing activities through an increase in liabilities to the pension and other accounts. Unmatured debt transactions, in both Canadian and foreign currency borrowing, were lower. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at \$4.6 billion.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	June		April to June	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	16,969	16,458	43,351	44,801
Expenses				
Program expenses	-10,024	-10,935	-30,706	-32,982
Public debt charges	-3,142	-2,914	-9,231	-8,621
Budgetary balance (deficit/surplus) <sup>1</sup>	3,803	2,609	3,414	3,198
<b>Non-budgetary transactions</b>	-7,512	-9,757	-11,912	-13,553
<b>Financial source/requirement</b>	-3,709	-7,148	-8,498	-10,355
<b>Net change in financing activities</b>	-4,167	-3,225	1,526	272
<b>Net change in cash balances</b>	-7,876	-10,373	-6,972	-10,083
<b>Cash balance at end of period</b>			4,979	4,621

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$4.0 billion was recorded for June 2002.

Table 2

## Budgetary revenues

	June			April to June		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	8,365	8,391	0.3	19,496	19,706	1.1
Corporate income tax	2,149	1,674	-22.1	5,205	5,731	10.1
Other income tax revenue	163	95	-41.7	532	589	10.7
Total income tax	10,677	10,160	-4.8	25,233	26,026	3.1
<b>Excise taxes and duties</b>						
Goods and services tax	2,209	2,570	16.3	6,602	7,268	10.1
Customs import duties	314	216	-31.2	802	669	-16.6
Sales and excise taxes	762	819	7.5	2,285	2,345	2.6
Air Travellers Security Charge	48	36	-25.0	75	132	76.0
Total excise taxes and duties	3,333	3,641	9.2	9,764	10,414	6.7
<b>Total tax revenues</b>	14,010	13,801	-1.5	34,997	36,440	4.1
<b>Employment insurance premiums</b>	1,729	1,708	-1.2	5,240	5,241	0.0
<b>Other revenues</b>	1,230	949	-22.8	3,114	3,120	0.2
<b>Total budgetary revenues</b>	16,969	16,458	-3.0	43,351	44,801	3.3

# The Fiscal Monitor

Table 3

## Budgetary expenses

	June		Change	April to June		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,132	2,224	4.3	6,406	6,633	3.5
Employment insurance benefits	1,001	1,058	5.7	3,472	3,571	2.9
Total	3,133	3,282	4.8	9,878	10,204	3.3
Other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	4,650	5,075	9.1
Fiscal transfers	1,056	1,002	-5.1	3,096	3,004	-3.0
Alternative Payments for Standing Programs	-210	-191	-9.0	-630	-573	-9.0
Total	2,396	2,502	4.4	7,116	7,506	5.5
<b>Direct program expenses</b>						
Subsidies and other transfers						
Agriculture	7	12	71.4	64	19	-70.3
Foreign Affairs	88	137	55.7	213	435	104.2
Health	82	80	-2.4	324	326	0.6
Human Resources Development	95	110	15.8	275	341	24.0
Indian and Northern Development	300	343	14.3	1,163	1,252	7.7
Industry and Regional Development	148	204	37.8	317	434	36.9
Other	125	245	96.0	484	615	27.1
Total	845	1,131	33.8	2,840	3,422	20.5
Total transfer payments	6,374	6,915	8.5	19,834	21,132	6.5
<b>Other program expenses:</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	74	102	37.8	332	366	10.2
Canada Mortgage and Housing Corporation	159	152	-4.4	489	570	16.6
Other	116	120	3.4	476	546	14.7
Total	349	374	7.2	1,297	1,482	14.3
Defence	979	915	-6.5	2,608	2,552	-2.1
All other departments and agencies	2,322	2,731	17.6	6,967	7,816	12.2
Total other program expenses	3,650	4,020	10.1	10,872	11,850	9.0
<b>Total program expenses</b>	10,024	10,935	9.1	30,706	32,982	7.4
<b>Public debt charges</b>	3,142	2,914	-7.3	9,231	8,621	-6.6
<b>Total budgetary expenses</b>	13,166	13,849	5.2	39,937	41,603	4.2

Table 4

## The budgetary balance and financial requirement/source

	June		April to June	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	3,803	2,609	3,414	3,198
<b>Non-budgetary transactions</b>				
Capital investing activities	-146	-191	-337	-398
Other investing activities	108	-21	101	-145
Other activities				
Accounts payable, receivables, accruals and allowances	-6,911	-10,173	-10,557	-13,841
Foreign exchange activities	-757	420	-1,721	207
Amortization of tangible capital assets	194	208	602	624
Total other activities	-7,474	-9,545	-11,676	-13,010
<b>Total non-budgetary transactions</b>	-7,512	-9,757	-11,912	-13,553
<b>Net financial source/requirement</b>	-3,709	-7,148	-8,498	-10,355

Table 5

## Net financial balance and net borrowings

	June		April to June	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Net financial source/requirement</b>	-3,709	-7,148	-8,498	-10,355
<b>Net increase (+)/decrease (-) in financing activities</b>				
Canadian currency borrowings				
Marketable bonds	-3,897	-3,705	-6,053	-3,065
Treasury bills	700	400	8,700	2,900
Canada Savings Bonds	-161	-158	-312	-390
Other	-6	182	-8	177
Total	-3,364	-3,281	2,327	-378
Foreign currency borrowings	-55	80	-249	-152
Total	-3,419	-3,201	2,078	-530
Pension and other accounts	-748	-24	-552	802
<b>Net change in financing activities</b>	-4,167	-3,225	1,526	272
<b>Change in cash balance</b>	-7,876	-10,373	-6,972	-10,083

## *Note to readers*

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes. The Statement of Assets and Liabilities will be presented once final results for 2002–03 are published.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by

prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### July 2003: budgetary deficit of \$1.1 billion

There was a budgetary deficit of \$1.1 billion in July 2003, compared to a restated surplus of \$37 million in July 2002. The year-over-year deterioration in the fiscal balance resulted from lower budgetary revenues (down \$0.3 billion), primarily due to lower corporate income tax and goods and services tax (GST) revenues, and higher program expenses (up \$1.0 billion), primarily due to higher departmental and agency operating expenses. Public debt charges were down \$0.2 billion.

### April to July 2003: budgetary surplus of \$2.1 billion

The budgetary surplus is estimated at \$2.1 billion for the April to July 2003 period, down \$1.3 billion from the surplus of \$3.5 billion reported in the same period of 2002-03. The lower surplus to date primarily reflects the impact on revenues of the weakness in economic activity in the second quarter of 2003 due to a number of shocks. It also reflects the new spending initiatives and tax reductions announced in recent budgets. Among the major components, budgetary revenues were up \$1.2 billion, or 2.0 per cent, program expenses were up \$3.3 billion, or 7.9 per cent, while public debt charges were down \$0.8 billion, or 6.2 per cent.

### July 2003: budgetary results

The budgetary balance decreased by \$1.1 billion, from a surplus of \$37 million in July 2002 to a deficit of \$1.1 billion in July 2003. Budgetary revenues, at \$13.5 billion, were down \$0.3 billion, or 2.0 per cent, primarily reflecting lower GST and corporate income tax revenues.

- Excise taxes and duties decreased by \$0.5 billion or 13.7 per cent, with all components lower. GST revenues declined \$0.4 billion, or 15.6 per cent, unwinding the large year-over-year increase reported last month. On a monthly basis, cash received is used as a proxy for the accrual numbers, with adjustments made at year-end. Customs import duties declined 8.7 per cent due to lower imports, while sales and excise tax revenues declined by 7.0 per cent, primarily reflecting lower revenues from motive fuel taxes.
- Corporate income tax revenues were down \$0.3 billion, or 23.1 per cent. The year-over-year decline is entirely attributable to higher

refunds as instalment payments were up slightly. As noted in the 2003 budget, the data to convert corporate tax revenues to accrual are not available in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.

- Personal income tax revenues increased \$0.3 billion, or 4.7 per cent, due to higher tax remittances from employment income, reflecting the increase in the number of employed.
- Employment insurance (EI) premiums were marginally higher, as the increase in employment, and therefore in the number of Canadians paying premiums, largely offset the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Other revenues, consisting of revenues from Crown corporations and from sales of goods and services and foreign exchange revenues, increased 11.0 per cent, reversing part of the year-over-year decline in the previous month.



# The Fiscal Monitor

On a year-over-year basis, program expenses in July 2003 were \$1.0 billion, or 9.4 per cent, higher than in July 2002. All major components were higher except transfers to persons.

Transfer payments increased by \$0.2 billion, or 2.2 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$41 million, or 1.2 per cent, due to lower EI benefit payments, down \$162 million, or 13.5 per cent. This year-over-year decline in EI benefit payments primarily reflects the timing of payments between June and July. Elderly benefits increased \$121 million, or 5.8 per cent, due to an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up \$86 million, or 3.6 per cent. The year-over-year increase is attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were lower, reflecting lower equalization transfers due to improved economic developments in the eligible provinces.
- Subsidies and other transfers increased by \$107 million, or 9.3 per cent, primarily reflecting the impact of budget measures.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were up \$0.8 billion, or 22.7 per cent, reflecting the impact of increased operating costs as well as policy initiatives announced in previous budgets.

Public debt charges were down \$0.2 billion, or 5.1 per cent, due to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

## April to July 2003: budgetary results

In the first four months of the 2003–04 fiscal year, there was a budgetary surplus of \$2.1 billion—a year-over-year deterioration of \$1.3 billion from the surplus of \$3.5 billion reported in the same period last year. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that hit the Canadian economy in the second quarter of 2003. It also reflects the impact of spending initiatives and tax reductions announced in recent budgets.

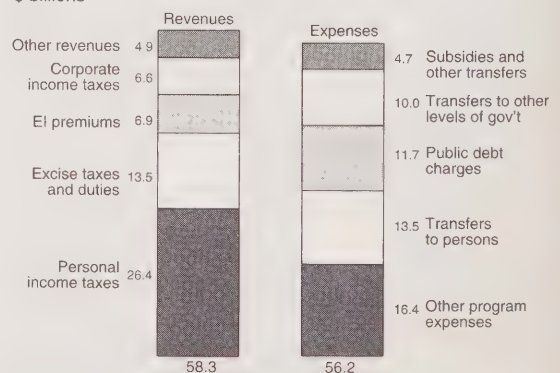
On a year-over-year basis, budgetary revenues were up \$1.2 billion, or 2.0 per cent.

- Personal income tax revenues were up \$0.5 billion, or 2.0 per cent. This increase is attributable to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was somewhat dampened by lower remittances from quarterly filers and the reduction in tax rates announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of budget measures.
- Corporate income taxes increased \$0.3 billion, or 4.2 per cent, reflecting higher instalment payments, which are broadly in line with the growth in corporate profits.

## Revenues and expenses

(April to July 2003)

\$ billions



- Excise taxes and duties increased \$0.2 billion, or 1.2 per cent, as all components except customs import duties were higher. GST revenues were up \$0.3 billion, or 2.9 per cent, reflecting weakness in the underlying tax base, while sales and excise taxes were up marginally. The decrease in customs import duties reflects lower imports subject to import duties.
- EI premiums were virtually unchanged, as the reduction in premium rates virtually offset the impact of the increase in the number of people employed.
- Other revenues were up 2.1 per cent.

On a year-over-year basis, program expenses in the April to July 2003 period were up \$3.3 billion, or 7.9 per cent, over the same period last year.

Transfer payments increased by \$1.4 billion, or 5.4 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.3 billion, or 2.2 per cent. Elderly benefits increased 4.1 per cent while EI benefits were down 1.4 per cent.
- Major transfers to other levels of government increased by \$0.5 billion, or 5.0 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.7 billion, or 17.1 per cent, primarily reflecting the impact of budget measures.

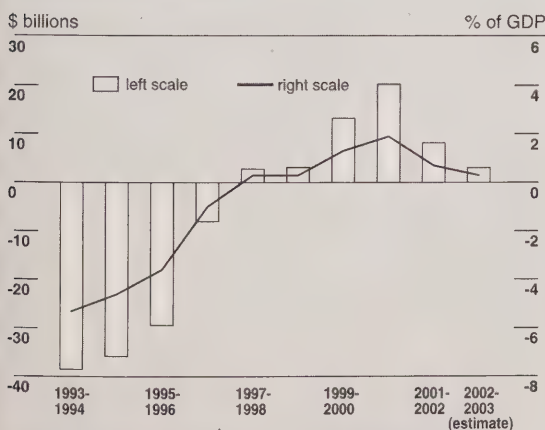
Other program expenses increased by \$1.8 billion, or 12.5 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

## Financial requirement of \$11.9 billion for April to July 2003

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

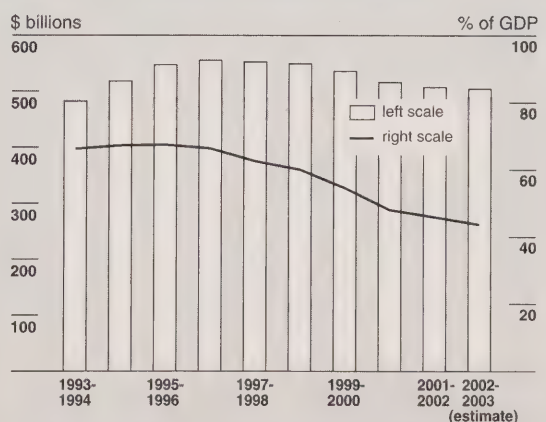
In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



Non-budgetary transactions resulted in a net requirement of \$14.0 billion in the first four months of 2003–04, up \$4.3 billion from the requirement in the same period last year. This increase primarily reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion). The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments have no impact on the budgetary balance this year.

With a budgetary surplus of \$2.1 billion and a net requirement of \$14.0 billion from non-budgetary transactions, there was a financial requirement of \$11.9 billion in the April to July 2003 period, up \$5.6 billion from the same period last year.

## **Net financing activities up \$0.6 billion**

This financial requirement of \$11.9 billion was financed by a reduction in the Government's cash balances of \$11.3 billion and an increase of \$0.6 billion in net financing activities through an increase in unmatured debt transactions and liabilities to the pension and other accounts. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at \$3.4 billion.



Table 1  
Summary statement of transactions

	July		April to July	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,770	13,490	57,123	58,291
Expenses				
Program expenses	10,524	-11,516	-41,232	-44,497
Public debt charges	3,209	-3,045	-12,439	-11,666
Budgetary balance (deficit/surplus) <sup>1</sup>	37	-1,071	3,452	2,128
<b>Non-budgetary transactions</b>	2,195	-428	-9,718	-13,980
<b>Financial source/requirement</b>	2,232	-1,499	-6,266	-11,852
<b>Net change in financing activities</b>	-4,259	280	-2,730	550
<b>Net change in cash balances</b>	-2,027	-1,219	-8,996	-11,302
<b>Cash balance at end of period</b>			2,955	3,395

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a deficit of \$128 million was recorded for July 2002.

Table 2  
Budgetary revenues

	July			April to July		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,403	6,706	4.7	25,899	26,413	2.0
Corporate income tax	1,119	861	-23.1	6,324	6,592	4.2
Other income tax revenue	306	393	28.4	837	982	17.3
Total income tax	7,828	7,960	1.7	33,060	33,987	2.8
<b>Excise taxes and duties</b>						
Goods and services tax	2,556	2,157	-15.6	9,159	9,425	2.9
Customs import duties	230	210	-8.7	1,032	879	-14.8
Sales and excise taxes	781	726	-7.0	3,066	3,072	0.2
Air Travellers Security Charge	34	15	-55.9	110	147	33.6
Total excise taxes and duties	3,601	3,108	-13.7	13,367	13,523	1.2
<b>Total tax revenues</b>	11,429	11,068	-3.2	46,427	47,510	2.3
<b>Employment insurance premiums</b>	1,647	1,652	0.3	6,887	6,893	0.1
<b>Other revenues</b>	694	770	11.0	3,809	3,888	2.1
<b>Total budgetary revenues</b>	13,770	13,490	-2.0	57,123	58,291	2.0

# The Fiscal Monitor

Table 3

## Budgetary expenses

	July		Change	April to July		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,093	2,214	5.8	8,498	8,847	4.1
Employment insurance benefits	1,198	1,036	-13.5	4,671	4,607	-1.4
Total	3,291	3,250	-1.2	13,169	13,454	2.2
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	6,200	6,766	9.1
Fiscal transfers	1,042	988	-5.2	4,137	3,991	-3.5
Alternative Payments for Standing Programs	-210	-211	0.5	-841	-784	-6.8
Total	2,382	2,468	3.6	9,496	9,973	5.0
Subsidies and other transfers						
Agriculture	44	27	-38.6	107	46	-57.0
Foreign Affairs	208	159	-23.6	421	593	40.9
Health	175	191	9.1	499	517	3.6
Human Resources Development	96	85	-11.5	371	427	15.1
Indian and Northern Development	305	312	2.3	1,468	1,564	6.5
Industry and Regional Development	136	179	31.6	453	613	35.3
Other	192	310	61.5	679	923	35.9
Total	1,156	1,263	9.3	3,998	4,683	17.1
Total transfer payments	6,829	6,981	2.2	26,663	28,110	5.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	75	51	-32.0	407	417	2.5
Canada Mortgage and Housing Corporation	153	166	8.5	642	737	14.8
Other	194	192	-1.0	670	737	10.0
Total	422	409	-3.1	1,719	1,891	10.0
Defence	801	969	21.0	3,411	3,522	3.3
All other departments and agencies	2,472	3,157	27.7	9,439	10,974	16.3
Total other program expenses	3,695	4,535	22.7	14,569	16,387	12.5
<b>Total program expenses</b>	10,524	11,516	9.4	41,232	44,497	7.9
<b>Public debt charges</b>	3,209	3,045	-5.1	12,439	11,666	-6.2
<b>Total budgetary expenses</b>	13,733	14,561	6.0	53,671	56,163	4.6

Table 4

## The budgetary balance and financial requirement/source

	July		April to July	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	37	-1,071	3,452	2,128
<b>Non-budgetary transactions</b>				
Capital investing activities	-402	-241	-561	-57
Other investing activities	-1	144	100	0
Other activities				
Accounts payable, receivables, accruals and allowances	849	-747	-9,876	-14,639
Foreign exchange activities	1,557	205	-165	412
Amortization of tangible capital assets	192	211	784	824
Total other activities	2,598	-331	-9,257	-13,403
<b>Total non-budgetary transactions</b>	2,195	-428	-9,718	-13,980
<b>Net financial source/requirement</b>	2,232	-1,499	-6,266	-11,852

Table 5

## Net financial balance and net borrowings

	July		April to July	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Net financial source/requirement</b>	2,232	-1,499	-6,266	-11,852
<b>Net increase (+)/decrease (-) in financing activities</b>				
Canadian currency borrowings				
Marketable bonds	-29	-1,729	-6,081	-4,794
Treasury bills	-1,850	2,900	6,850	5,800
Canada Savings Bonds	-91	-99	-403	-489
Other	0	-2	-8	176
Total	1,970	1,070	358	693
Foreign currency borrowings	-1,738	-82	-1,987	-235
Total	-3,708	988	-1,629	458
Pension and other accounts	-551	-708	-1,101	92
<b>Net change in financing activities</b>	-4,259	280	-2,730	550
<b>Change in cash balance</b>	-2,027	-1,219	-8,996	-11,302

# The Fiscal Monitor

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## *Note to readers*

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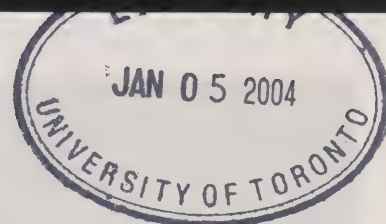
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# The Fiscal Monitor

A Publication of the Department of Finance



## Highlights

### August 2003: budgetary deficit of \$822 million

There was a budgetary deficit of \$822 million in August 2003, up \$167 million from the restated deficit of \$655 million in August 2002. On a year-over-year basis, budgetary revenues were up \$287 million, or 2.2 per cent, while program expenses increased \$369 million, or 3.5 per cent, and public debt charges increased \$85 million, or 2.9 per cent.

### April to August 2003: budgetary surplus of \$1.3 billion

The budgetary surplus is estimated at \$1.3 billion for the April to August 2003 period, down \$1.5 billion from the surplus of \$2.8 billion reported in the same period of 2002-03. The lower surplus to date primarily reflects the impact on revenues of the weakness in economic activity in the second quarter of 2003 due to a number of domestic shocks. It also reflects the new spending initiatives and tax reductions announced in recent budgets. Among the major components, budgetary revenues were up \$1.5 billion, or 2.1 per cent, program expenses were up \$3.6 billion, or 7.0 per cent, while public debt charges were \$0.7 billion, or 4.5 per cent, lower.

### August 2003: budgetary results

The August 2003 budgetary deficit of \$822 million was \$167 million higher than the deficit of \$655 million reported in August 2002.

On a year-over-year basis, budgetary revenues, at \$13.1 billion, were up \$0.3 billion, or 2.2 per cent, primarily reflecting higher personal income tax revenues.

- Personal income tax revenues increased \$0.2 billion, or 3.8 per cent, due to higher tax remittances from employment income, reflecting the increase in the number of employed.
- Corporate income tax revenues were up slightly due entirely to lower refunds, as monthly instalment payments were down. As noted in the 2003 budget, the data to convert corporate income tax revenues to accrual are not available in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.

- Excise taxes and duties decreased by \$0.1 billion, or 3.7 per cent, with considerable variation among the components. Goods and services tax (GST) revenues declined \$0.3 billion, or 13.3 per cent. In contrast, both customs import duties and sales and excise taxes were up strongly, unwinding some of the declines witnessed in previous periods.
- Employment insurance (EI) premiums were lower, as the increase in employment, and therefore in the number of Canadians paying premiums, was more than offset by the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, increased 24.6 per cent. This category of revenues is quite volatile on a monthly basis.



# The Fiscal Monitor

On a year-over-year basis, program expenses in August 2003 were \$0.4 billion, or 3.5 per cent, higher than in August 2002. Transfer payments were higher while other program expenses were lower.

Transfer payments increased by \$0.4 billion, or 6.8 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.2 billion, or 5.4 per cent. Elderly benefits increased 4.8 per cent due to an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were up 6.4 per cent, primarily reflecting an increase in the number of beneficiaries.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.1 billion, or 4.5 per cent. The year-over-year increase is attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were lower, reflecting lower equalization transfers due to improved economic developments in the eligible provinces.
- Subsidies and other transfers increased by \$0.2 billion, or 17.6 per cent, primarily reflecting the impact of budget measures and increased assistance to farmers.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were down \$0.1 billion, or 1.7 per cent, primarily reflecting adjustments to previous periods in 2002–03.

Public debt charges were up \$0.1 billion, or 2.9 per cent, due to an increase in the stock of interest-bearing debt as the average effective interest rate on that debt declined.

## April to August 2003: budgetary results

In the first five months of the 2003–04 fiscal year, there was a budgetary surplus of \$1.3 billion—a year-over-year deterioration of \$1.5 billion from the surplus of \$2.8 billion reported in the same period last year. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that hit the Canadian economy in the second quarter of 2003. It also reflects the impact of spending initiatives and tax reductions announced in recent budgets.

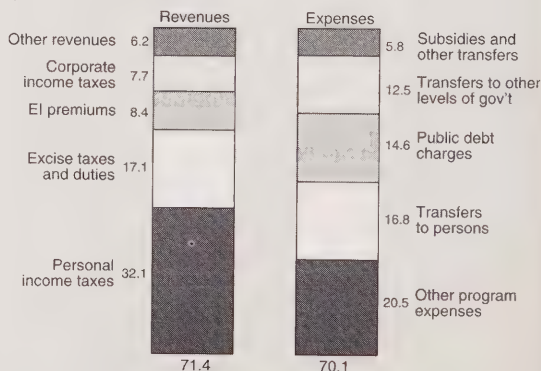
On a year-over-year basis, budgetary revenues were up \$1.5 billion, or 2.1 per cent.

- Personal income tax revenues were up \$0.7 billion, or 2.3 per cent. This increase is attributable to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was somewhat dampened by lower remittances from quarterly filers and the reduction in tax rates announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of budget measures.
- Corporate income taxes increased \$0.3 billion, or 4.7 per cent, reflecting higher instalment payments, which are broadly in line with the growth in corporate profits, and lower refunds.

## Revenues and expenses

(April to August 2003)

\$ billions



- Excise taxes and duties were up marginally. GST revenues were down slightly, reflecting weakness in the underlying tax base and higher refunds. Sales and excise taxes were up marginally, while customs import duties were lower, reflecting lower imports subject to import duties.
- EI premiums were slightly lower, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were up 6.5 per cent.

On a year-over-year basis, program expenses in the April to August 2003 period were up \$3.6 billion, or 7.0 per cent, over the same period last year.

Transfer payments increased by \$1.9 billion, or 5.7 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.5 billion, or 2.8 per cent. Elderly benefits increased 4.3 per cent while EI benefits were virtually unchanged.
- Major transfers to other levels of government increased by \$0.6 billion, or 4.9 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.9 billion, or 17.2 per cent, primarily reflecting the impact of budget measures and increased financial assistance to farmers.

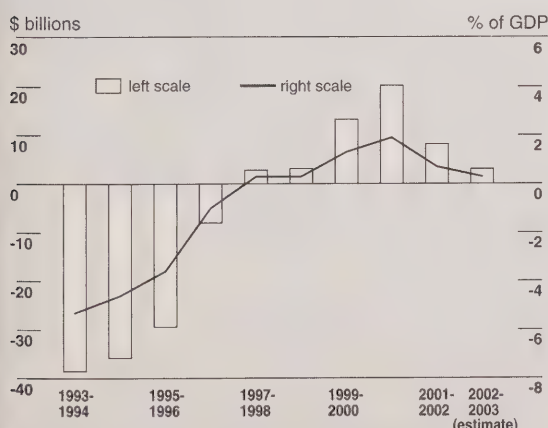
Other program expenses increased by \$1.7 billion, or 9.3 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

## Financial requirement of \$12.1 billion for April to August 2003

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

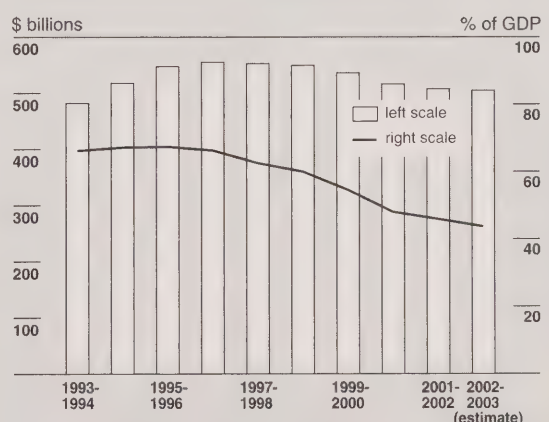
In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



Non-budgetary transactions resulted in a net requirement of \$13.5 billion in the first five months of 2003–04, up \$3.8 billion from the requirement in the same period last year. This increase reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion). The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments have no impact on the budgetary balance this year.

With a budgetary surplus of \$1.3 billion and a net requirement of \$13.5 billion from non-budgetary transactions, there was a financial requirement of \$12.1 billion in the April to August 2003 period, up \$5.2 billion from the same period last year.

## **Net financing activities up \$5.8 billion**

This financial requirement of \$12.1 billion was financed by a reduction in the Government's cash balances of \$6.4 billion and an increase of \$5.8 billion in net financing activities through an increase in unmatured debt transactions and liabilities to the pension and other accounts. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at \$8.3 billion.



Table 1  
Summary statement of transactions

	August		April to August	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	12,856	13,143	69,978	71,434
Expenses				
Program expenses	-10,613	-10,982	-51,844	-55,479
Public debt charges	-2,898	-2,983	-15,337	-14,649
Budgetary balance (deficit/surplus) <sup>1</sup>	-655	-822	2,797	1,306
<b>Non-budgetary transactions</b>	19	526	-9,700	-13,452
<b>Financial source/requirement</b>	-636	-296	-6,903	-12,146
<b>Net change in financing activities</b>	5,608	5,235	2,879	5,784
<b>Net change in cash balances</b>	4,972	4,939	-4,024	-6,362
<b>Cash balance at end of period</b>			7,927	8,336

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a deficit of \$4 million was recorded for August 2002.

Table 2  
Budgetary revenues

	August			April to August		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	5,447	5,653	3.8	31,346	32,065	2.3
Corporate income tax	1,019	1,096	7.6	7,343	7,688	4.7
Other income tax revenue	234	197	-15.8	1,071	1,179	10.1
Total income tax	6,700	6,946	3.7	39,760	40,932	2.9
Excise taxes and duties						
Goods and services tax	2,553	2,213	-13.3	11,712	11,638	-0.6
Customs import duties	306	349	14.1	1,338	1,228	-8.2
Sales and excise taxes	848	1,010	19.1	3,916	4,080	4.2
Air Travellers Security Charge	36	32	-11.1	146	179	22.6
Total excise taxes and duties	3,743	3,604	-3.7	17,112	17,125	0.1
Total tax revenues	10,443	10,550	1.0	56,872	58,057	2.1
<b>Employment insurance premiums</b>	1,516	1,475	-2.7	8,402	8,368	-0.4
<b>Other revenues</b>	897	1,118	24.6	4,704	5,009	6.5
<b>Total budgetary revenues</b>	12,856	13,143	2.2	69,978	71,434	2.1

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Table 3

## Budgetary expenses

	August		Change	April to August		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,130	2,233	4.8	10,628	11,080	4.3
Employment insurance benefits	1,010	1,075	6.4	5,680	5,682	0.0
Total	3,140	3,308	5.4	16,308	16,762	2.8
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,692	9.2	7,750	8,458	9.1
Fiscal transfers	1,042	1,008	-3.3	5,180	4,999	-3.5
Alternative Payments for Standing Programs	-210	-211	0.5	-1,051	-995	-5.3
Total	2,382	2,489	4.5	11,879	12,462	4.9
Subsidies and other transfers						
Agriculture	78	211	170.5	185	257	38.9
Foreign Affairs	101	104	3.0	523	697	33.3
Health	61	99	62.3	560	616	10.0
Human Resources Development	146	80	-45.2	517	507	-1.9
Indian and Northern Development	302	313	3.6	1,770	1,877	6.0
Industry and Regional Development	165	216	30.9	618	830	34.3
Other	90	86	-4.4	769	1,009	31.2
Total	943	1,109	17.6	4,942	5,793	17.2
Total transfer payments	6,465	6,906	6.8	33,129	35,017	5.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	75	74	-1.3	482	491	1.9
Canada Mortgage and Housing Corporation	149	172	15.4	791	909	14.9
Other	126	178	41.3	797	915	14.8
Total	350	424	21.1	2,070	2,315	11.8
Defence	1,183	1,131	-4.4	4,593	4,652	1.3
All other departments and agencies	2,615	2,521	-3.6	12,052	13,495	12.0
Total other program expenses	4,148	4,076	-1.7	18,715	20,462	9.3
<b>Total program expenses</b>	10,613	10,982	3.5	51,844	55,479	7.0
<b>Public debt charges</b>	2,898	2,983	2.9	15,337	14,649	-4.5
<b>Total budgetary expenses</b>	13,511	13,965	3.4	67,181	70,128	4.4

Table 4

## Budgetary balance and financial source/requirement

	August		April to August	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-655	-822	2,797	1,306
<b>Non-budgetary transactions</b>				
Capital investing activities	-188	-130	-750	-707
Other investing activities	83	-29	183	-29
Other activities				
Accounts payable, receivables, accruals and allowances	498	229	-9,378	-14,408
Foreign exchange activities	-789	-25	-953	387
Amortization of tangible capital assets	415	481	1,198	1,305
Total other activities	124	685	-9,133	-12,716
<b>Total non-budgetary transactions</b>	19	526	-9,700	-13,452
<b>Financial source/requirement</b>	-636	-296	-6,903	-12,146

Table 5

## Financial source/requirement and net financing activities

	August		April to August	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Financial source/requirement</b>	-636	-296	-6,903	-12,146
<b>Net increase (+)/decrease (-) in financing activities</b>				
Canadian currency borrowings				
Marketable bonds	5,214	1,451	-867	-3,343
Treasury bills	600	3,900	7,450	9,700
Canada Savings Bonds	-76	-89	-478	-578
Other	0	-1	-8	174
Total	5,738	5,261	6,097	5,953
Foreign currency borrowings	5	-138	-1,982	-373
Total	5,743	5,123	4,115	5,580
Pension and other accounts	-135	112	-1,236	204
<b>Net change in financing activities</b>	5,608	5,235	2,879	5,784
<b>Change in cash balance</b>	4,972	4,939	-4,024	-6,362

# The Fiscal Monitor

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## *Note to readers*

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes. The Statement of Assets and Liabilities will be presented once final results for 2002–03 are published.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by

prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2003: budgetary surplus of \$277 million

There was a budgetary surplus of \$277 million in September 2003, \$1.6 billion below the restated surplus of \$1.8 billion in September 2002. The lower surplus in September 2003 was largely attributable to lower budgetary revenues, which were \$1.2 billion lower than in the same period last year. On a year-over-year basis, program expenses increased by \$0.5 billion while public debt charges were \$0.1 billion lower.

### April to September 2003: budgetary surplus of \$1.6 billion

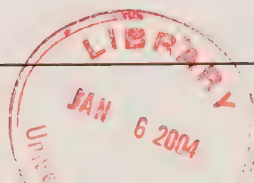
The budgetary surplus is estimated at \$1.6 billion for the April to September 2003 period, down \$3.0 billion from the restated surplus of \$4.6 billion in the same period of 2002-03. Budgetary revenues were up marginally by \$0.3 billion, or 0.3 per cent. This largely reflects the recent economic weakness due to a series of shocks that have hit the Canadian economy in 2003. Program expenses were up \$4.2 billion, or 6.6 per cent, primarily as a result of new spending initiatives announced in recent budgets. Public debt charges were down \$0.8 billion, or 4.5 per cent, reflecting lower interest rates.

### September 2003: budgetary results

The September 2003 budgetary surplus of \$277 million was \$1.6 billion lower than the \$1.8-billion surplus recorded in September 2002.

On a year-over-year basis, budgetary revenues, at \$14.8 billion, were down \$1.2 billion, or 7.3 per cent. Most major revenue sources were down relative to September 2002.

- Personal income tax revenues decreased \$0.2 billion, or 3.0 per cent, due mainly to lower source deductions and installment payments from quarterly filers.
- Corporate income tax revenues were down \$0.5 billion, or 35.4 per cent, due to both a decline in gross installment payments and higher refunds. As noted in the 2003 budget, the data to convert corporate tax revenues to accrual are not available in time in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.
- Total excise taxes and duties decreased by \$0.4 billion, or 9.1 per cent. Goods and services tax (GST) revenues declined \$0.3 billion, or 11.6 per cent, attributable to higher refunds, reflecting timing considerations. Sales and excise taxes were down \$0.1 billion, or 8.2 per cent, while customs import duties were up strongly, unwinding some of the declines witnessed in previous periods.
- Employment insurance (EI) premiums were 3.8 per cent lower, as the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002) more than offset the impact of an increase in employment relative to September 2002 and therefore in the number of Canadians paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, increased 3.3 per cent. This category of revenues is quite volatile on a monthly basis.



On a year-over-year basis, program expenses in September 2003 were \$0.5 billion, or 4.8 per cent, higher than in September 2002. Transfer payments were 7.0 per cent higher while other program expenses were 1.5 per cent higher.

Transfer payments increased by \$0.5 billion on a year-over-year basis, driven mainly by an increase in transfers to persons.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.4 billion, or 11.4 per cent. Elderly benefits increased 5.9 per cent. Average benefits have risen because of higher inflation earlier in 2003 and an increase in the number of individuals eligible for benefits. EI benefit payments were up 21.8 per cent, primarily reflecting adjustments for under-reporting in previous months.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.1 billion, or 3.8 per cent. The year-over-year increase is attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were lower, reflecting lower equalization transfers due to improved economic developments in the eligible provinces.
- Subsidies and other transfers increased marginally, with increases in Agriculture, Foreign Affairs and Industry being virtually offset by lower transfers in other departments.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were up \$0.1 billion, or 1.5 per cent.

Public debt charges were down \$0.1 billion, or 4.5 per cent, due to a decline in the average effective interest rate.

## April to September 2003: budgetary results

In the first six months of the 2003–04 fiscal year, there was a budgetary surplus of \$1.6 billion—a year-over-year deterioration of \$3.0 billion from the surplus of \$4.6 billion reported in the same period last year. The lower surplus largely reflects the impact on revenues of the weakness in economic activity due to a series of shocks that have hit the Canadian economy in 2003. It also reflects the impact of spending initiatives and tax reductions announced in previous budgets.

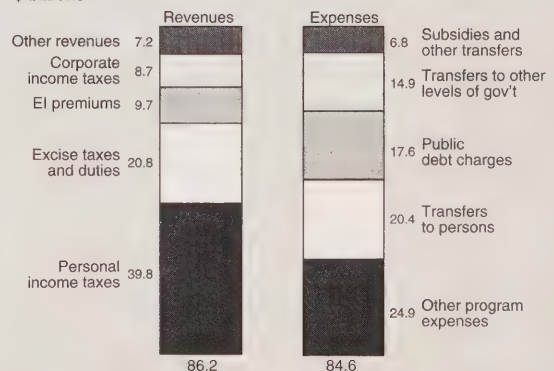
On a year-over-year basis, budgetary revenues were up only \$0.3 billion, or 0.3 per cent.

- Personal income tax revenues were up \$0.5 billion, or 1.2 per cent. This increase is attributable to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was somewhat dampened by lower remittances from quarterly filers and the impact of reductions in tax rates announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of budget measures.
- Corporate income taxes decreased \$0.2 billion, or 2.2 per cent, reflecting a decline in gross receipts and higher refunds.
- Excise taxes and duties were down \$0.4 billion, primarily because of a 2.8-per-cent decline in GST revenues. This decline primarily reflects

### Revenues and expenses

(April to September 2003)

\$ billions





higher refunds. Refunds in September 2002 were unusually low, reflecting timing considerations. As a result, over the course of the fiscal year, GST revenues are expected to grow more in line with the applicable tax base. Sales and excise taxes were up marginally, while customs import duties were lower, reflecting lower imports subject to import duties.

- EI premiums were slightly lower, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were up 6.0 per cent.

On a year-over-year basis, program expenses in the April to September 2003 period were up \$4.2 billion, or 6.6 per cent, over the same period last year.

Transfer payments increased by \$2.4 billion, or 5.9 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.8 billion, or 4.2 per cent. Elderly benefits increased 4.5 per cent, while EI benefits were up 3.6 per cent due to a rise in the number of beneficiaries as well as an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$0.7 billion, or 4.7 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.9 billion, or 14.4 per cent, primarily reflecting the impact of budget measures and increased financial assistance to farmers.

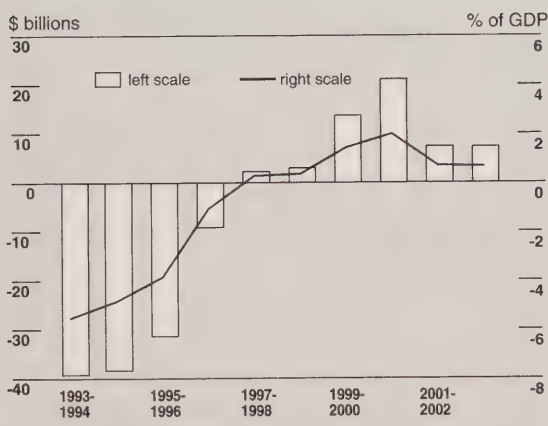
Other program expenses increased by \$1.8 billion, or 7.8 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

## Financial requirement of \$11.1 billion for April to September 2003

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

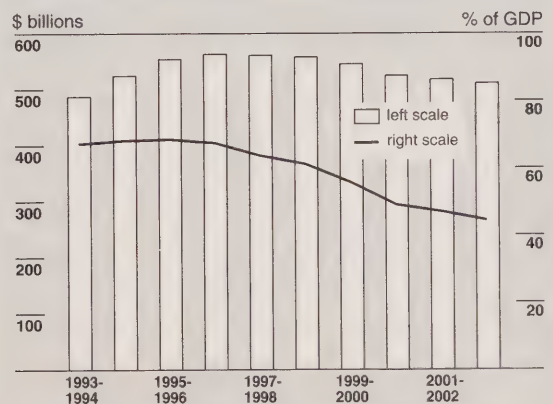
In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Non-budgetary transactions resulted in a net requirement of \$12.7 billion in the first six months of 2003–04, up \$4.9 billion from the requirement in the same period last year. This primarily reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion). The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments have no impact on the budgetary balance this year.

With a budgetary surplus of \$1.6 billion and a net requirement of \$12.7 billion from non-budgetary transactions, there was a financial requirement of \$11.1 billion in the April to September 2003 period.

## **Net financing activities up \$0.4 billion**

This financial requirement of \$11.1 billion was financed by a reduction in the Government's cash balances of \$10.7 billion and an increase of \$0.4 billion in net financing activities through an increase in unmatured debt transactions and liabilities to the pension and other accounts. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at \$4.0 billion.

## **Note to readers**

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).



Table 1  
Summary statement of transactions

	September		April to September	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,945	14,778	85,922	86,211
Expenses				
Program expenses	-11,054	-11,582	-62,897	-67,062
Public debt charges	-3,055	-2,919	-18,392	-17,567
Budgetary balance (deficit/surplus) <sup>1</sup>	1,836	277	4,633	1,582
<b>Non-budgetary transactions</b>	1,873	749	-7,826	-12,705
<b>Financial source/requirement</b>	3,709	1,026	-3,193	-11,123
<b>Net change in financing activities</b>	-7,710	-6,037	-4,831	396
<b>Net change in cash balances</b>	-4,001	-5,011	-8,024	-10,727
<b>Cash balance at end of period</b>			3,924	3,973

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$3.1 billion was recorded for September 2002.

Table 2  
Budgetary revenues

	September			April to September		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,989	7,748	-3.0	39,335	39,814	1.2
Corporate income tax	1,529	987	-35.4	8,872	8,675	-2.2
Other income tax revenue	159	171	7.5	1,229	1,350	9.8
Total income tax	9,677	8,906	-8.0	49,436	49,839	0.8
Excise taxes and duties						
Goods and services tax	2,907	2,569	-11.6	14,618	14,207	-2.8
Customs import duties	280	317	13.2	1,618	1,545	-4.5
Sales and excise taxes	861	790	-8.2	4,776	4,870	2.0
Air Travellers Security Charge	32	33	3.1	178	212	19.1
Total excise taxes and duties	4,080	3,709	-9.1	21,190	20,834	-1.7
Total tax revenues	13,757	12,615	-8.3	70,626	70,673	0.1
<b>Employment insurance premiums</b>	1,374	1,322	-3.8	9,776	9,689	-0.9
<b>Other revenues</b>	814	841	3.3	5,520	5,849	6.0
<b>Total budgetary revenues</b>	15,945	14,778	-7.3	85,922	86,211	0.3

# The Fiscal Monitor

Table 3

## Budgetary expenses

	September		Change	April to September		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,119	2,244	5.9	12,747	13,324	4.5
Employment insurance benefits	1,110	1,352	21.8	6,790	7,035	3.6
Total	3,229	3,596	11.4	19,537	20,359	4.2
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,692	9.2	9,300	10,150	9.1
Fiscal transfers	1,040	989	-4.9	6,220	5,988	-3.7
Alternative Payments for Standing Programs	-210	-211	0.5	-1,261	-1,205	-4.4
Total	2,380	2,470	3.8	14,259	14,933	4.7
Subsidies and other transfers						
Agriculture	43	112	160.5	229	369	61.1
Foreign Affairs	97	133	37.1	620	830	33.9
Health	157	92	-41.4	717	708	-1.3
Human Resources Development	122	126	3.3	639	633	-0.9
Indian and Northern Development	269	281	4.5	2,039	2,158	5.8
Industry and Regional Development	67	103	53.7	685	933	36.2
Other	287	202	-29.6	1,055	1,212	14.9
Total	1,042	1,049	0.7	5,984	6,843	14.4
Total transfer payments	6,651	7,115	7.0	39,780	42,135	5.9
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	91	92	1.1	573	583	1.7
Canada Mortgage and Housing Corporation	195	166	-14.9	986	1,074	8.9
Other	139	157	12.9	936	1,073	14.6
Total	425	415	-2.4	2,495	2,730	9.4
Defence	1,110	1,120	0.9	5,703	5,772	1.2
All other departments and agencies	2,868	2,932	2.2	14,919	16,425	10.1
Total other program expenses	4,403	4,467	1.5	23,117	24,927	7.8
<b>Total program expenses</b>	11,054	11,582	4.8	62,897	67,062	6.6
<b>Public debt charges</b>	3,055	2,919	-4.5	18,392	17,567	-4.5
<b>Total budgetary expenses</b>	14,109	14,501	2.8	81,289	84,629	4.1

Table 4

## Budgetary balance and financial source/requirement

	September		April to September	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	1,836	277	4,633	1,582
<b>Non-budgetary transactions</b>				
Capital investing activities	-150	-93	-900	-800
Other investing activities	-476	-732	-292	-761
Other activities				
Accounts payable, receivables, accruals and allowances	944	1,671	-8,434	-12,738
Foreign exchange activities	1,316	-219	363	168
Amortization of tangible capital assets	239	122	1,437	1,426
Total other activities	2,499	1,574	-6,634	-11,144
<b>Total non-budgetary transactions</b>	1,873	749	-7,826	-12,705
<b>Net financial source/requirement</b>	3,709	1,026	-3,193	-11,123

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Net financial source/requirement</b>	3,709	1,026	-3,193	-11,123
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-7,449	-3,758	-8,317	-7,101
Treasury bills	550	-2,200	8,000	7,500
Canada Savings Bonds	-51	-74	-530	-652
Other	-5	-1	-12	173
Total	-6,955	-6,033	-859	-80
Foreign currency borrowings	-63	-325	-2,045	-48
Total	-7,018	-6,358	-2,904	-128
Pension and other accounts	-692	321	-1,927	524
<b>Net change in financing activities</b>	-7,710	-6,037	-4,831	396
<b>Change in cash balance</b>	-4,001	-5,011	-8,024	-10,727

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	September 30, 2003	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	65,194	-14,190
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	281,144	-7,101
Treasury bills	104,411	111,911	7,500
Canada Savings Bonds	22,584	21,932	-652
Other	3,371	3,544	173
Subtotal	418,611	418,531	-80
Payable in foreign currencies	21,141	21,093	-48
Total unmaturred debt	439,752	439,624	-128
Pension and other accounts			
Public sector pensions	125,708	127,107	1,399
Other employee and veteran future benefit	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	6,427	-666
Other pension and other accounts	9,359	9,138	-221
Total pension and other accounts	181,004	181,516	512
Total interest-bearing debt	620,756	621,140	384
<b>Total liabilities</b>	700,140	686,332	-13,807
<b>Financial assets</b>			
Cash and accounts receivable	62,626	50,251	-12,375
Foreign exchange accounts	48,950	48,782	-168
Loans, investments and advances (net of allowances)	23,748	24,509	761
Total financial assets	135,324	123,542	-11,782
<b>Net debt</b>	564,816	562,790	-2,023
<b>Non-financial assets</b>	54,240	53,796	-444
<b>Federal debt (accumulated deficit)</b>	510,576	508,994	-1,582

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November 2003



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### October 2003: budgetary deficit of \$947 million

There was a budgetary deficit of \$947 million in October 2003, \$524 million higher than the restated deficit of \$423 million in October 2002. The increase in the deficit, on a year-over-year basis, was mainly due to higher program expenses (up \$396 million).

### April to October 2003: budgetary surplus of \$635 million

The budgetary surplus is estimated at \$635 million for the April to October 2003 period, down \$3.6 billion from the restated surplus of \$4.2 billion reported in the same period of 2002-03. Budgetary revenues were up marginally, \$0.2 billion or 0.2 per cent. This largely reflects the recent economic weakness due to a number of domestic shocks that have hit the Canadian economy. Program expenses were up \$4.6 billion, or 6.2 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down \$0.8 billion, or 3.9 per cent, reflecting lower interest rates.

### October 2003: budgetary results

The October 2003 budgetary deficit of \$947 million was \$524 million higher than the deficit of \$423 million reported in October 2002.

On a year-over-year basis, budgetary revenues, at \$13.2 billion, were down \$0.1 billion, or 1.1 per cent, as higher personal and corporate income tax revenues were more than offset by declines in the other major revenue components.

- Personal income tax revenues increased \$0.2 billion, or 3.3 per cent, reversing the decline witnessed in the previous month.
- Corporate income tax revenues were up \$0.1 billion, or 6.1 per cent, due to higher gross installment payments. As noted in the 2003 budget, the data to convert corporate tax revenues to accrual are not available in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.
- Total excise taxes and duties decreased by \$0.3 billion, or 6.4 per cent. Goods and services tax (GST) revenues declined \$0.2 billion, or 7.2 per cent. Healthy growth in gross receipts from domestic sales was offset by a sharp decline in GST collected on imported goods and higher refunds and rebates. The year-over-year increase in refunds is primarily attributable to timing considerations in 2002 and should be reversed before the end of the fiscal year. Customs import duties were also down, reflecting a decline in taxable imports, while sales and excise taxes were virtually unchanged from October 2002.
- Employment insurance (EI) premiums were 4.7 per cent lower, as the impact of the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002) more than offset the increase in employment and therefore in the number of Canadians paying premiums.



# The Fiscal Monitor

- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, decreased 9.3 per cent. This category of revenues is quite volatile on a monthly basis.

On a year-over-year basis, program expenses in October 2003 were \$0.4 billion, or 3.8 per cent, higher than in October 2002. Transfer payments were 6.4 per cent higher while other program expenses were down 0.6 per cent.

Transfer payments increased by \$0.4 billion, or 6.4 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.1 billion, or 4.4 per cent. Elderly benefits increased 5.1 per cent due to both higher average benefits, which are indexed to changes in consumer prices, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 3.0 per cent, primarily reflecting higher average benefits and an increase in the number of beneficiaries.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up 5.7 per cent. The year-over-year increase is primarily attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were also higher, primarily reflecting higher equalization entitlements.
- Subsidies and other transfers increased \$0.2 billion, or 13.8 per cent, primarily reflecting higher health transfers as a result of recent budget measures.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were down 0.6 per cent. Within this component,

Crown corporation expenses declined by 11.8 per cent, primarily due to the timing of payments. Defence expenses increased 25.4 per cent, in part reflecting increases announced in recent budgets. All other departmental and agency expenses were lower.

Public debt charges were down marginally.

## April to October 2003: budgetary results

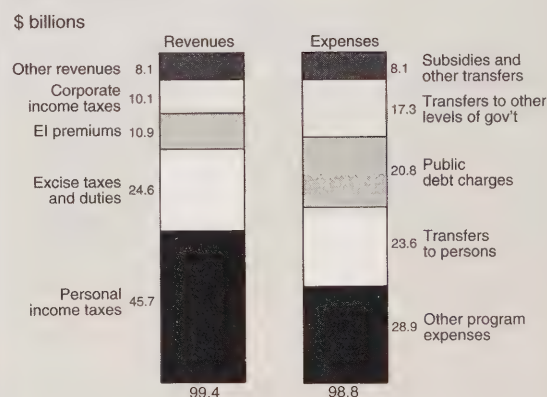
In the first seven months of the 2003–04 fiscal year, there was a budgetary surplus of \$635 million—a year-over-year decline of \$3.6 billion from the restated surplus of \$4.2 billion reported in the same period last year. The lower surplus reflects the weakness in economic activity due to a series of shocks that have hit the Canadian economy, as well as the impact of spending initiatives and tax reduction measures announced in previous budgets.

On a year-over-year basis, budgetary revenues were up \$0.2 billion, or 0.2 per cent.

- Personal income tax revenues were up \$0.7 billion, or 1.5 per cent. This increase is attributable to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase was somewhat dampened by lower remittances from quarterly filers and the impact

## Revenues and expenses

(April to October 2003)



of tax reduction measures announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of budget measures.

- Corporate income taxes decreased \$0.1 billion, or 1.1 per cent. Although gross receipts were essentially unchanged from the same period last year, refunds were higher.
- Excise taxes and duties were down \$0.6 billion, primarily due to a 3.6-per-cent decline in GST revenues. So far this year, weakness in gross receipts from imports has offset much of the growth in gross receipts from domestic sales. Refunds were also up as refunds in 2002 were unusually low because of timing considerations. As a result, over the course of the fiscal year GST revenues are expected to grow more in line with the applicable tax base. Sales and excise taxes were up marginally, while customs import duties were lower, reflecting lower imports subject to import duties.
- EI premiums were slightly lower, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were up 4.1 per cent.

On a year-over-year basis, program expenses in the April to October 2003 period were up \$4.6 billion, or 6.2 per cent, over the same period last year.

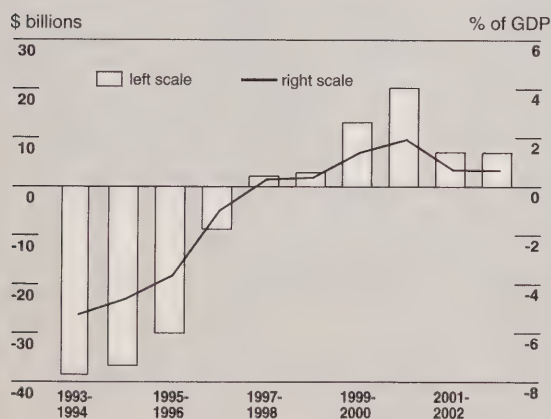
Transfer payments increased by \$2.8 billion, or 6.0 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.0 billion, or 4.2 per cent. Elderly benefits increased 4.6 per cent, reflecting an increase in average benefits and the number of people eligible to receive benefits. EI benefits were up 3.5 per cent due to a rise in the number of beneficiaries as well as an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$0.8 billion, or 4.9 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$1.0 billion, or 14.3 per cent, primarily reflecting the impact of budget measures and increased financial assistance to farmers.

Other program expenses increased by \$1.8 billion, or 6.6 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

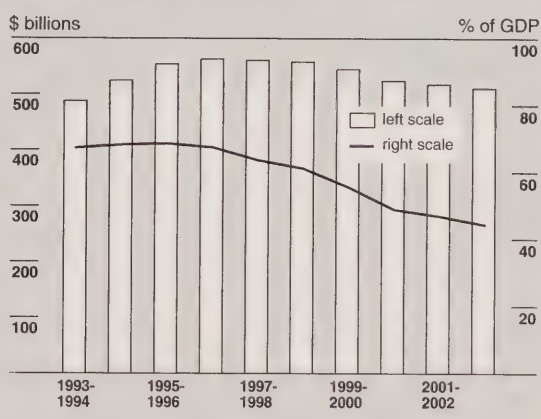
Public debt charges were down \$0.8 billion, or 3.9 per cent, reflecting lower interest rates.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



## **Financial requirement of \$10.8 billion for April to October 2003**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$11.4 billion in the first seven months of 2003–04, up \$2.5 billion from the requirement in the same period last year. This primarily reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion). The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments have no impact on the budgetary balance this year.

With a budgetary surplus of \$0.6 billion and a net requirement of \$11.4 billion from non-budgetary transactions, there was a financial requirement of \$10.8 billion in the April to October 2003 period.

## **Net financing activities up \$0.3 billion**

This financial requirement of \$10.8 billion was financed by a reduction in the Government's cash balances of \$10.5 billion and an increase of \$0.3 billion in net financing activities through a net increase in unmatured debt transactions and liabilities to the pension and other accounts.

The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at \$4.2 billion.

## **Note to readers**

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).



Table 1

## Summary statement of transactions

	October		April to October	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,331	13,191	99,252	99,403
Expenses				
Program expenses	-10,550	-10,946	-73,447	-78,008
Public debt charges	-3,204	-3,192	-21,596	-20,760
Budgetary balance (deficit/surplus) <sup>1</sup>	-423	-947	4,209	635
<b>Non-budgetary transactions</b>	-1,047	1,320	-8,871	-11,386
<b>Financial source/requirement</b>	-1,470	373	-4,662	-10,751
<b>Net change in financing activities</b>	733	-129	-4,098	267
<b>Net change in cash balances</b>	-737	244	-8,760	-10,484
<b>Cash balance at end of period</b>			3,189	4,217

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$126 million was recorded for October 2002.

Table 2

## Budgetary revenues

	October		Change	April to October		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	5,688	5,874	3.3	45,022	45,688	1.5
Corporate income tax	1,322	1,402	6.1	10,194	10,078	-1.1
Other income tax revenue	234	220	-6.0	1,463	1,570	7.3
Total income tax	7,244	7,496	3.5	56,679	57,336	1.2
Excise taxes and duties						
Goods and services tax	2,946	2,733	-7.2	17,565	16,940	-3.6
Customs import duties	274	233	-15.0	1,892	1,778	-6.0
Sales and excise taxes	815	815	0.5	5,591	5,685	1.7
Air Travellers Security Charge	40	33	-25.0	218	245	12.4
Total excise taxes and duties	4,075	3,814	-6.4	25,266	24,648	-2.4
Total tax revenues	11,319	11,310	-0.1	81,945	81,984	0.0
<b>Employment insurance premiums</b>	1,225	1,167	-4.7	11,001	10,857	-1.3
<b>Other revenues</b>	787	713	-9.3	6,305	6,563	4.1
<b>Total budgetary revenues</b>	13,331	13,191	-1.1	99,252	99,403	0.2

# The Fiscal Monitor

Table 3

## Budgetary expenses

	October		Change	April to October		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,161	2,271	5.1	14,908	15,595	4.6
Employment insurance benefits	983	1,012	3.0	7,773	8,047	3.5
Total	3,144	3,283	4.4	22,681	23,642	4.2
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,692	9.2	10,850	11,842	9.1
Fiscal transfers	942	988	4.9	7,161	6,976	-2.6
Alternative Payments for Standing Programs	-210	-269	28.1	-1,471	-1,475	0.3
Total	2,282	2,411	5.7	16,540	17,343	4.9
Subsidies and other transfers						
Agriculture	29	41	41.4	258	410	58.9
Foreign Affairs	130	137	5.4	750	967	28.9
Health	101	270	167.3	818	978	19.6
Human Resources Development	132	133	0.8	771	766	-0.6
Indian and Northern Development	308	387	25.6	2,347	2,544	8.4
Industry and Regional Development	261	229	-12.3	945	1,162	23.0
Other	133	48	-63.9	1,186	1,257	6.0
Total	1,094	1,245	13.8	7,075	8,084	14.3
Total transfer payments	6,520	6,939	6.4	46,296	49,069	6.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	92	96	4.3	665	679	2.1
Canada Mortgage and Housing Corporation	149	149	0.0	1,135	1,223	7.8
Other	250	188	-24.8	1,185	1,262	6.5
Total	491	433	-11.8	2,985	3,164	6.0
Defence	863	1,082	25.4	6,567	6,856	4.4
All other departments and agencies	2,676	2,492	-6.9	17,599	18,919	7.5
Total other program expenses	4,030	4,007	-0.6	27,151	28,939	6.6
<b>Total program expenses</b>	10,550	10,946	3.8	73,447	78,008	6.2
<b>Public debt charges</b>	3,204	3,192	-0.4	21,596	20,760	-3.9
<b>Total budgetary expenses</b>	13,754	14,138	2.8	95,043	98,768	3.9

Table 4

## Budgetary balance and financial source/requirement

	October		April to October	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-423	-947	4,209	635
<b>Non-budgetary transactions</b>				
Capital investing activities	-259	-183	-1,159	-983
Other investing activities	-134	168	-426	-593
Other activities				
Accounts payable, receivables, accruals and allowances	393	481	-8,039	-12,258
Foreign exchange activities	-1,284	548	-921	716
Amortization of tangible capital assets	237	306	1,674	1,732
Total other activities	-654	1,335	-7,286	-9,810
<b>Total non-budgetary transactions</b>	-1,047	1,320	-8,871	-11,386
<b>Net financial source/requirement</b>	-1,470	373	-4,662	-10,751

Table 5

## Financial source/requirement and net financing activities

	October		April to October	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Net financial source/requirement</b>	-1,470	373	-4,662	-10,751
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-1,693	578	-10,011	-6,524
Treasury bills	1,650	-400	9,650	7,100
Canada Savings Bonds	-105	-86	-635	-738
Other	-1	-1	-14	172
Total	-149	91	-1,010	10
Foreign currency borrowings	906	-207	-1,138	-255
Total	757	-116	-2,148	-245
Pension and other accounts	-24	-13	-1,950	512
<b>Net change in financing activities</b>	733	-129	-4,098	267
<b>Change in cash balance</b>	-737	244	-8,760	-10,484

# The Fiscal Monitor

Table 6

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Other	3,371	3,543	172
Subtotal	418,611	418,621	10
Payable in foreign currencies	21,141	20,886	-255
Total unmaturred debt	439,752	439,507	-245
Pension and other accounts			
Public sector pensions	125,708	127,312	1,604
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	6,172	-921
Other pension and other accounts	9,359	9,188	-171
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Total interest-bearing debt	620,756	621,023	267
<b>Total liabilities</b>	700,140	687,924	-12,217
<b>Financial assets</b>			
Cash and accounts receivable	62,626	51,997	-10,629
Foreign exchange accounts	48,950	48,233	-717
Loans, investments and advances (net of allowances)	23,748	24,341	593
Total financial assets	135,324	124,571	-10,753
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<b>Federal debt (accumulated deficit)</b>	510,576	509,941	-635

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December 2003



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2003: budgetary surplus of \$132 million

There was a budgetary surplus of \$132 million in November 2003, virtually unchanged from the restated surplus of \$136 million in November 2002. On a year-over-year basis, higher budgetary revenues (up \$0.4 billion) and lower public debt charges (down \$0.3 billion) virtually offset an increase in program expenses (up \$0.8 billion).

### April to November 2003: budgetary surplus of \$767 million

The budgetary surplus is estimated at \$767 million for the April to November 2003 period, down \$3.6 billion from the surplus of \$4.3 billion reported in the same period of 2002–03. Budgetary revenues were up marginally, \$0.6 billion or 0.5 per cent, a reflection of the economic weakness in the first half of 2003 due to a number of domestic shocks that hit the Canadian economy. Program expenses were up \$5.3 billion, or 6.4 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down \$1.2 billion, or 4.6 per cent, reflecting lower interest rates.

### November 2003: budgetary results

The November 2003 budgetary surplus of \$132 million was virtually unchanged from the \$136-million surplus reported in November 2002.

On a year-over-year basis, budgetary revenues, at \$13.7 billion, were up \$0.4 billion, or 3.3 per cent, led by a 22.2-per-cent increase in corporate income taxes.

- Personal income tax revenues increased \$0.2 billion, or 2.4 per cent, due to higher tax remittances from employment income, resulting from an increase in the number of people employed.
- Corporate income tax revenues were up \$0.3 billion, or 22.2 per cent, due entirely to lower refunds in November 2003 compared to November 2002. As noted in the 2003 budget, the data to convert corporate tax revenues to accrual are not available in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.

- Excise taxes and duties decreased by \$0.2 billion, or 4.2 per cent. Goods and services tax (GST) revenues declined \$0.2 billion, or 6.5 per cent. Gross receipts declined for both domestic sales and imported goods. Refunds were also up, reflecting timing considerations. Customs import duties were down, while sales and excise taxes were up \$0.1 billion.
- Employment insurance (EI) premiums were up marginally, as higher employment relative to November 2002, and therefore an increase in the number of Canadians paying premiums, offset the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, increased 18.4 per cent. This category of revenues is quite volatile on a monthly basis.



# The Fiscal Monitor

On a year-over-year basis, program expenses in November 2003, at \$10.7 billion, were \$0.8 billion, or 7.6 per cent, higher than in November 2002. Transfer payments were 10.3 per cent higher while other program expenses were up 2.8 per cent.

Transfer payments increased by \$0.7 billion, or 10.3 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.3 billion, or 10.3 per cent. Elderly benefits increased 4.8 per cent due to both higher average benefits, which have risen because of higher inflation earlier in 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 21.5 per cent, as November 2003 included one more payment cycle than in November 2002.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up 10.0 per cent. The year-over-year increase is primarily attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were up 9.6 per cent. Equalization entitlements, the largest component of fiscal transfers, are based on the most recent official estimates. The monthly results for 2002–03 reflect final entitlements and prior-year adjustments as recorded in the *Public Accounts of Canada 2003*. The monthly results for 2003–04 are based on the official estimates as of September 2003.
- Subsidies and other transfers increased \$0.1 billion or 10.7 per cent, with most of the increase attributable to higher agricultural payments under the Farm Income Protection Act and the timing of transfers by Industry Canada and regional development agencies.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were up 2.8 per cent, as increases in defence spending and transfers to Crown corporations more than offset a decline in all other departmental and agency expenses. The decline in all other departmental and agency expenses was attributable to one less working day in November 2003 compared to November 2002.

Public debt charges were down 9.8 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

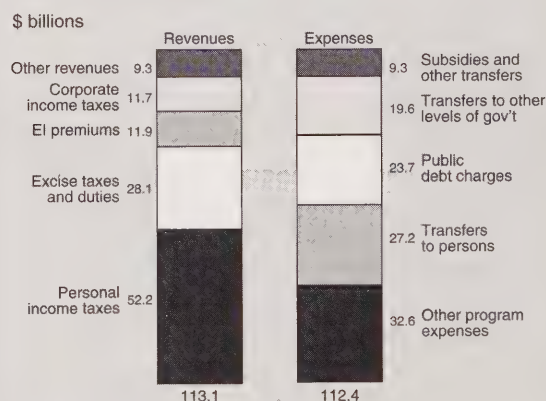
## April to November 2003: budgetary results

In the first eight months of the 2003–04 fiscal year, there was a budgetary surplus of \$767 million—a year-over-year deterioration of \$3.6 billion from the surplus of \$4.3 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that have hit the Canadian economy. It also reflects the impact of spending initiatives and tax reductions announced in previous budgets.

On a year-over-year basis, budgetary revenues, at \$113.1 billion, were up \$0.6 billion, or 0.5 per cent.

### Revenues and expenses

(April to November 2003)



- Personal income tax revenues were up \$0.8 billion, or 1.6 per cent, due to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was dampened by lower remittances from quarterly filers and the impact of tax reduction measures announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of the budget measures.
- Corporate income taxes increased \$0.2 billion, or 1.5 per cent, due to lower refunds.
- Excise taxes and duties were down \$0.8 billion, primarily because of a 3.9-per-cent decline in GST revenues. So far this year, weakness in gross receipts from imports has offset much of the growth in gross receipts from domestic sales. Refunds were also up as refunds in 2002 were unusually low because of timing considerations. In the final quarter of the fiscal year, these timing factors are expected to be unwound so that for the year as a whole, GST revenues are expected to grow in line with the applicable tax base. Sales and excise taxes were up 2.9 per cent, while customs import duties were lower, reflecting lower imports subject to import duties.

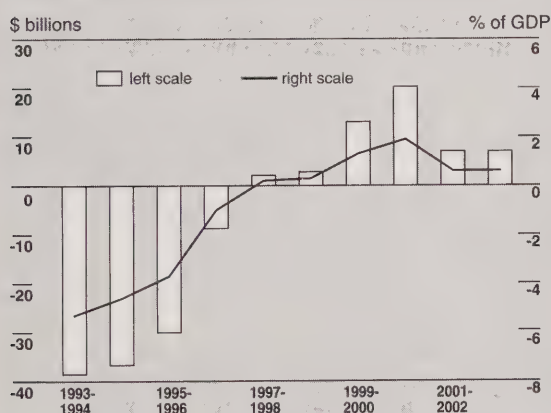
- EI premiums were slightly lower, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were up 5.6 per cent.

On a year-over-year basis, program expenses in the April to November 2003 period, at \$88.7 billion, were up \$5.3 billion, or 6.4 per cent, over the same period of 2002–03.

Transfer payments increased by \$3.4 billion, or 6.5 per cent.

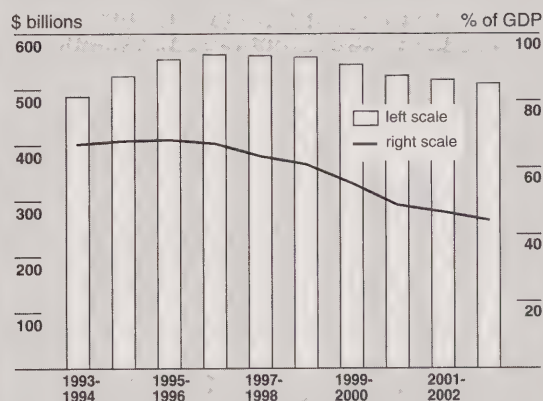
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.3 billion, or 5.0 per cent. Elderly benefits increased 4.6 per cent, while EI benefits were up 5.7 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$1.0 billion, or 5.4 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$1.1 billion, or 13.8 per cent, primarily reflecting the impact of budget measures and increased financial assistance to farmers.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



# The Fiscal Monitor

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Other program expenses increased by \$1.9 billion, or 6.1 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

## **Financial requirement of \$8.2 billion for April to November 2003**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$8.9 billion in the first eight months of 2003–04, up \$1.9 billion from the requirement in the same period of 2002–03. This primarily reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion). The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments have no impact on the budgetary balance this year.

With a budgetary surplus of \$0.8 billion and a net requirement of \$8.9 billion from non-budgetary transactions, there was a financial requirement of \$8.2 billion in the April to November 2003 period.

## **Net financing activities up \$5.7 billion**

This financial requirement of \$8.2 billion was financed by a reduction in the Government's cash balances of \$2.4 billion and an increase of \$5.7 billion in net financing activities,

primarily through an increase in unmatured debt transactions, particularly in Treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November stood at \$12.3 billion.

## **Note to readers**

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).



Table 1

## Summary statement of transactions

	November		April to November	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	13,312	13,746	112,568	113,148
Expenses				
Program expenses	-9,958	-10,710	-83,408	-88,718
Public debt charges	-3,218	-2,904	-24,814	-23,663
Budgetary balance (deficit/surplus) <sup>1</sup>	136	132	4,346	767
<b>Non-budgetary transactions</b>	1,869	2,448	-7,002	-8,924
<b>Financial source/requirement</b>	2,005	2,580	-2,656	-8,157
<b>Net change in financing activities</b>	7,043	5,458	2,942	5,718
<b>Net change in cash balances</b>	9,048	8,038	286	-2,439
<b>Cash balance at end of period</b>			12,236	12,259

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$332 million was recorded for November 2002.

Table 2

## Budgetary revenues

	November		Change	April to November		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,379	6,534	2.4	51,402	52,223	1.6
Corporate income tax	1,292	1,579	22.2	11,486	11,657	1.5
Other income tax revenue	229	228	-0.4	1,692	1,798	6.3
Total income tax	7,900	8,341	5.6	64,580	65,678	1.7
Excise taxes and duties						
Goods and services tax	2,476	2,314	-6.5	20,042	19,254	-3.9
Customs import duties	275	201	-26.9	2,168	1,979	-8.7
Sales and excise taxes	794	885	11.5	6,383	6,571	2.9
Air Travellers Security Charge	39	32	-17.9	257	276	7.4
Total excise taxes and duties	3,584	3,432	-4.2	28,850	28,080	-2.7
Total tax revenues	11,484	11,773	2.5	93,430	93,758	0.4
<b>Employment insurance premiums</b>	1,045	1,046	0.1	12,047	11,903	-1.2
<b>Other revenues</b>	783	927	18.4	7,091	7,487	5.6
<b>Total budgetary revenues</b>	13,312	13,746	3.3	112,568	113,148	0.5

# The Fiscal Monitor

Table 3

## Budgetary expenses

	November		Change	April to November		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,157	2,260	4.8	17,065	17,856	4.6
Employment insurance benefits	1,059	1,287	21.5	8,832	9,334	5.7
Total	3,216	3,547	10.3	25,897	27,190	5.0
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	12,400	13,533	9.1
Fiscal transfers	726	796	9.6	7,888	7,771	-1.5
Alternative Payments for Standing Programs	-210	-214	1.9	-1,681	-1,689	0.5
Total	2,066	2,273	10.0	18,607	19,615	5.4
Subsidies and other transfers						
Agriculture	75	115	53.3	333	524	57.4
Foreign Affairs	114	112	-1.8	864	1,080	25.0
Health	155	171	10.3	973	1,150	18.2
Human Resources Development	119	129	8.4	890	895	0.6
Indian and Northern Development	300	302	0.7	2,647	2,846	7.5
Industry and Regional Development	70	142	102.9	1,015	1,304	28.5
Other	231	207	-10.4	1,417	1,466	3.5
Total	1,064	1,178	10.7	8,139	9,265	13.8
Total transfer payments	6,346	6,998	10.3	52,643	56,070	6.5
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	89	130	46.1	754	809	7.3
Canada Mortgage and Housing Corporation	125	146	16.8	1,260	1,370	8.7
Other	129	241	86.8	1,318	1,503	14.0
Total	343	517	50.7	3,332	3,682	10.5
Defence	801	912	13.9	7,368	7,767	5.4
All other departments and agencies	2,468	2,283	-7.5	20,065	21,199	5.7
Total other program expenses	3,612	3,712	2.8	30,765	32,648	6.1
<b>Total program expenses</b>	9,958	10,710	7.6	83,408	88,718	6.4
<b>Public debt charges</b>	3,218	2,904	-9.8	24,814	23,663	-4.6
<b>Total budgetary expenses</b>	13,176	13,614	3.3	108,222	112,381	3.8

Table 4

## Budgetary balance and financial source/requirement

	November		April to November	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	136	132	4,346	767
<b>Non-budgetary transactions</b>				
Capital investing activities	-242	-108	-1,401	-1,091
Other investing activities	-67	178	-493	-415
Other activities				
Accounts payable, receivables, accruals and allowances	854	1,972	-7,184	-10,272
Foreign exchange activities	1,081	186	160	902
Amortization of tangible capital assets	243	220	1,916	1,952
Total other activities	2,178	2,378	-5,108	-7,418
<b>Total non-budgetary transactions</b>	1,869	2,448	-7,002	-8,924
<b>Net financial source/requirement</b>	2,005	2,580	-2,656	-8,157

Table 5

## Financial source/requirement and net financing activities

	November		April to November	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Net financial source/requirement</b>	2,005	2,580	-2,656	-8,157
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	6,552	-494	-3,459	-7,017
Treasury bills	2,750	7,750	12,400	14,850
Canada Savings Bonds	-1,019	-841	-1,654	-1,578
Other	-3	-1	-17	171
Total	8,280	6,414	7,270	6,426
Foreign currency borrowings	-1,142	-317	-2,280	-573
Total	7,138	6,097	4,990	5,853
Pension and other accounts	-95	-639	-2,048	-135
<b>Net change in financing activities</b>	7,043	5,458	2,942	5,718
<b>Change in cash balance</b>	9,048	8,038	286	-2,439

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	November 30, 2003	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	73,309	-6,075
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	281,228	-7,017
Treasury bills	104,411	119,261	14,850
Canada Savings Bonds	22,584	21,006	-1,578
Other	3,371	3,542	171
Subtotal	418,611	425,037	6,426
Payable in foreign currencies	21,141	20,568	-573
Total unmaturing debt	439,752	445,605	5,853
Pension and other accounts			
Public sector pensions	125,708	127,435	1,727
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	5,414	-1,679
Other pension and other accounts	9,359	9,176	-183
Total pension and other accounts	181,004	180,869	-135
Total interest-bearing debt	620,756	626,474	5,718
<b>Total liabilities</b>	700,140	699,783	-358
<b>Financial assets</b>			
Cash and accounts receivable	62,626	64,478	1,852
Foreign exchange accounts	48,950	48,048	-902
Loans, investments and advances (net of allowances)	23,748	24,163	415
Total financial assets	135,324	136,689	1,365
<b>Net debt</b>	564,816	563,094	-1,721
<b>Non-financial assets</b>	54,240	53,285	-955
<b>Federal debt (accumulated deficit)</b>	510,576	509,809	-767

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*Ce document est également offert en français.*

January 2004



# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2003: budgetary surplus of \$4.4 billion

There was a budgetary surplus of \$4.4 billion in December 2003, up \$1.7 billion from the restated surplus of \$2.8 billion in December 2002. Typically a surplus is recorded in December, reflecting the inclusion of quarterly personal income tax remittances and final corporate income tax payments from those corporations with a taxation year ending October 31. On a year-over-year basis, budgetary revenues were up \$2.0 billion, as a \$3.3-billion increase in corporate tax revenues offset a decline of \$1.3 billion in other revenue components. Program expenses were \$0.5 billion higher, while public debt charges were \$0.2 billion lower.

### April to December 2003: budgetary surplus of \$5.2 billion

The budgetary surplus is estimated at \$5.2 billion for the April to December 2003 period, down \$1.9 billion from the surplus of \$7.1 billion reported in the same period of 2002-03. Budgetary revenues were up \$2.6 billion, or 2.0 per cent, due to the strength of corporate income taxes. The weakness in other revenue sources reflected the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003, as well as tax reductions announced in previous budgets. Program expenses were up \$5.8 billion, or 6.2 per cent, primarily due to new spending initiatives announced in previous budgets. Public debt charges were down \$1.3 billion, or 4.8 per cent, reflecting lower interest rates.

### December 2003: budgetary results

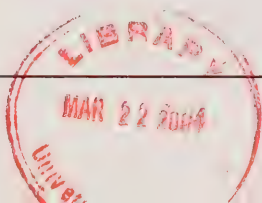
The December 2003 budgetary surplus of \$4.4 billion was up \$1.7 billion from the \$2.8-billion surplus reported in December 2002, as higher corporate income taxes and lower public debt charges more than offset declines in other revenue sources and higher program expenses.

On a year-over-year basis, budgetary revenues, at \$18.8 billion, were up \$2.0 billion, or 11.9 per cent, led by a \$3.3-billion increase in corporate income taxes.

- Corporate income tax revenues increased by \$3.3 billion to \$5.1 billion, almost triple the level in December 2002. Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability.

They have 60 days after their year-end to make settlement payments for any amounts owing. As most of the large financial sector corporations have an October year-end, their improved profitability in 2003 led to large settlement payments in December.

- Personal income tax revenues were up marginally, primarily reflecting slow growth in source deductions.
- Excise taxes and duties decreased by \$0.4 billion, or 11.0 per cent. Goods and services tax (GST) revenues declined \$0.5 billion, or 17.5 per cent. Gross receipts declined for both domestic sales and imported goods, while refunds were up, reflecting timing considerations. Customs import duties were down, while sales and excise taxes were up \$0.1 billion.



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- Employment insurance (EI) premiums were down \$0.3 billion, as the reduction in premium rates offset the increase in employment and thus the number of people paying premiums (the employee rate for 2003 was \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services, and foreign exchange revenues, were down \$0.5 billion, or 45.4 per cent. This category of revenues is quite volatile on a monthly basis.

On a year-over-year basis, program expenses in December 2003, at \$11.5 billion, were \$0.5 billion, or 4.9 per cent, higher than in December 2002. Transfer payments were 6.2 per cent higher while other program expenses were up 2.6 per cent.

Transfer payments increased by \$0.4 billion, or 6.2 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up 0.5 per cent. Elderly benefits increased 7.5 per cent due to both higher average benefits, which have risen because of higher inflation earlier in 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were down 9.9 per cent, primarily reflecting a decline in the number of beneficiaries.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up 8.6 per cent. The year-over-year increase is primarily attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were up 5.3 per cent. Equalization entitlements, the largest component of fiscal transfers, are based on the most recent official estimates. The monthly results for 2002–03 reflect final entitlements and prior-year adjustments as recorded in the *Public Accounts*

of Canada 2003. The monthly results for 2003–04 are based on the official estimates as of September 2003.

- Subsidies and other transfers increased \$0.2 billion, or 16.2 per cent, with most of the increase attributable to higher agricultural payments under the Farm Income Protection Act.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations. On a year-over-year basis, these expenses were up 2.6 per cent, as increases in defence spending and transfers to Crown corporations more than offset a decline in all other departmental and agency expenses. The decline in all other departmental and agency expenses was attributable to one less working day in December 2003 compared to December 2002.

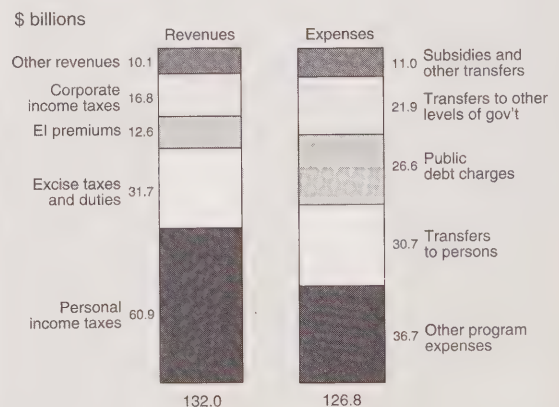
Public debt charges were down 6.0 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

## April to December 2003: budgetary results

In the first nine months of the 2003–04 fiscal year, there was a budgetary surplus of \$5.2 billion—a year-over-year deterioration of \$1.9 billion from the surplus of \$7.1 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic

### Revenues and expenses

(April to December 2003)



activity due to a series of shocks that have hit the Canadian economy and the impact of spending initiatives and tax reductions announced in previous budgets.

On a year-over-year basis, budgetary revenues, at \$132.0 billion, were up \$2.6 billion, or 2.0 per cent.

- Personal income tax revenues were up \$0.9 billion, or 1.4 per cent, due to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was dampened by the impact of tax reduction measures announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of the budget measures.
- Corporate income taxes increased \$3.4 billion, or 25.6 per cent, due to lower refunds and large year-end settlements from the financial sector.
- Excise taxes and duties were down \$1.2 billion, primarily because of a 5.7-per-cent decline in GST revenues. So far this year, weakness in gross receipts from imports has offset the modest growth in gross receipts from domestic sales. Refunds were also up as refunds in 2002 were unusually low because of timing considerations. In the final quarter of the fiscal

year, these timing factors are expected to be unwound so that, for the year as a whole, GST revenues are expected to grow in line with the applicable tax base. Sales and excise taxes were up 3.9 per cent, while customs import duties were lower, reflecting lower imports subject to import duties.

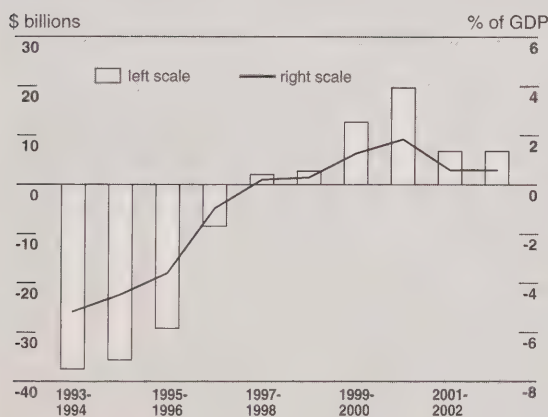
- EI premiums were down 3.7 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were down 1.1 per cent.

On a year-over-year basis, program expenses in the April to December 2003 period, at \$100.2 billion, were up \$5.8 billion, or 6.2 per cent, over the same period of 2002–03.

Transfer payments increased by \$3.9 billion, or 6.5 per cent.

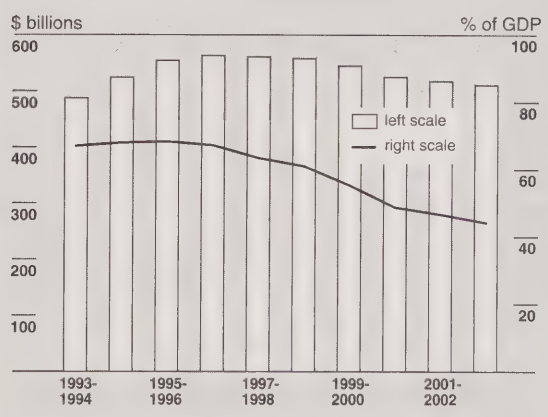
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.3 billion, or 4.5 per cent. Elderly benefits increased 4.9 per cent, while EI benefits were up 3.5 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$1.2 billion, or 5.7 per cent, primarily reflecting higher entitlements under the CHST program.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.



# The Fiscal Monitor

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- Subsidies and other transfers increased by \$1.4 billion, or 14.2 per cent, primarily reflecting the impact of budget measures and increased assistance to farmers.

Other program expenses increased by \$2.0 billion, or 5.7 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

## **Financial requirement of \$5.7 billion for April to December 2003**

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.9 billion in the first nine months of 2003–04, up slightly from the requirement in the same period of 2002–03.

With a budgetary surplus of \$5.2 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial requirement of \$5.7 billion in the April to December 2003 period.

## **Net financing activities down \$1.7 billion**

This financial requirement of \$5.7 billion was financed by a reduction in the Government's cash balances of \$7.4 billion and a decrease of \$1.7 billion in net financing activities, primarily

through a decrease in unmatured debt transactions, particularly in marketable bonds. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December stood at \$7.3 billion.

## **Note to readers**

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).



Table 1

## Summary statement of transactions

	December		April to December	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,825	18,832	129,393	131,981
Expenses				
Program expenses	-10,968	-11,507	-94,377	-100,224
Public debt charges	-3,075	-2,890	-27,888	-26,554
Budgetary balance (deficit/surplus) <sup>1</sup>	2,782	4,435	7,128	5,203
Non-budgetary transactions	-3,709	-1,984	-10,714	-10,910
<b>Financial source/requirement</b>	-927	2,451	-3,586	-5,707
<b>Net change in financing activities</b>	-7,473	-7,428	-4,530	-1,711
<b>Net change in cash balances</b>	-8,400	-4,977	-8,116	-7,418
<b>Cash balance at end of period</b>			3,834	7,281

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

<sup>1</sup> Under modified accrual, a surplus of \$2.9 billion was recorded for December 2002.

Table 2

## Budgetary revenues

	December		Change	April to December		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,600	8,646	0.5	60,002	60,867	1.4
Corporate income tax	1,889	5,148	172.5	13,375	16,805	25.6
Other income tax revenue	256	227	-11.3	1,948	2,024	3.9
Total income tax	10,745	14,021	30.5	75,325	79,696	5.8
Excise taxes and duties						
Goods and services tax	2,937	2,423	-17.5	22,979	21,678	-5.7
Customs import duties	241	223	-7.5	2,409	2,201	-8.6
Sales and excise taxes	801	893	11.5	7,185	7,464	3.9
Air Travellers Security Charge	40	36	-10.0	297	312	5.1
Total excise taxes and duties	4,019	3,575	-11.0	32,870	31,655	-3.7
Total tax revenues	14,764	17,596	19.2	108,195	111,351	2.9
<b>Employment insurance premiums</b>	985	649	-34.1	13,032	12,552	-3.7
<b>Other revenues</b>	1,076	587	-45.4	8,166	8,078	-1.1
<b>Total budgetary revenues</b>	16,825	18,832	11.9	129,393	131,981	2.0

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Table 3

## Budgetary expenses

	December		Change	April to December		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,109	2,268	7.5	19,174	20,123	4.9
Employment insurance benefits	1,408	1,268	-9.9	10,239	10,602	3.5
Total	3,517	3,536	0.5	29,413	30,725	4.5
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,692	9.2	13,950	15,225	9.1
Fiscal transfers	742	781	5.3	8,630	8,551	-0.9
Alternative Payments for Standing Programs	-211	-214	1.4	-1,892	-1,902	0.5
Total	2,081	2,259	8.6	20,688	21,874	5.7
Subsidies and other transfers						
Agriculture	33	432	1209.1	366	956	161.2
Foreign Affairs	197	224	13.7	1,060	1,304	23.0
Health	79	83	5.1	1,051	1,232	17.2
Human Resources Development	201	92	-54.2	1,091	987	-9.5
Indian and Northern Development	348	340	-2.3	2,994	3,187	6.4
Industry and Regional Development	315	190	-39.7	1,330	1,495	12.4
Other	300	351	17.0	1,718	1,814	5.6
Total	1,473	1,712	16.2	9,610	10,975	14.2
Total transfer payments	7,071	7,507	6.2	59,711	63,574	6.5
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	82	72	-12.2	836	881	5.4
Canada Mortgage and Housing Corporation	159	171	7.5	1,419	1,541	8.6
Other	174	229	31.6	1,492	1,733	16.2
Total	415	472	13.7	3,747	4,155	10.9
Defence	909	1,011	11.2	8,275	8,779	6.1
All other departments and agencies	2,573	2,517	-2.2	22,644	23,716	4.7
Total other program expenses	3,897	4,000	2.6	34,666	36,650	5.7
<b>Total program expenses</b>	10,968	11,507	4.9	94,377	100,224	6.2
<b>Public debt charges</b>	3,075	2,890	-6.0	27,888	26,554	-4.8
<b>Total budgetary expenses</b>	14,043	14,397	2.5	122,265	126,778	3.7

Table 4

## Budgetary balance and financial source/requirement

	December		April to December	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	2,782	4,435	7,128	5,203
<b>Non-budgetary transactions</b>				
Capital investing activities	-138	-88	-1,541	-1,179
Other investing activities	-199	-132	-692	-547
Other activities				
Accounts payable, receivables, accruals and allowances	-4,242	-3,042	-11,428	-13,317
Foreign exchange activities	640	1,063	801	1,965
Amortization of tangible capital assets	230	215	2,146	2,168
Total other activities	-3,372	-1,764	-8,481	-9,184
<b>Total non-budgetary transactions</b>	-3,709	-1,984	-10,714	-10,910
<b>Net financial source/requirement</b>	-927	2,451	-3,586	-5,707

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2002	2003	2002-03	2003-04
(\$ millions)				
<b>Net financial source/requirement</b>	-927	2,451	-3,586	-5,707
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-5,398	-5,136	-8,857	-12,154
Treasury bills	-2,250	-2,650	10,150	12,200
Canada Savings Bonds	-3	12	-1,657	-1,566
Other	-1	-80	-18	91
Total	-7,652	-7,854	-382	-1,429
Foreign currency borrowings	18	66	-2,262	-507
Total	-7,634	-7,788	-2,644	-1,936
Pension and other accounts	161	360	-1,886	225
<b>Net change in financing activities</b>	-7,473	-7,428	-4,530	-1,711
<b>Change in cash balance</b>	-8,400	-4,977	-8,116	-7,418

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	December 31, 2003	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	67,393	-11,991
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	276,091	-12,154
Treasury bills	104,411	116,611	12,200
Canada Savings Bonds	22,584	21,018	-1,566
Other	3,371	3,462	91
Subtotal	418,611	417,182	-1,429
Payable in foreign currencies	21,141	20,634	-507
Total unmaturred debt	439,752	437,816	-1,936
Pension and other accounts			
Public sector pensions	125,708	127,686	1,978
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	5,503	-1,590
Other pension and other accounts	9,359	9,195	-164
Total pension and other accounts	181,004	181,228	224
Total interest-bearing debt	620,756	619,044	-1,712
<b>Total liabilities</b>	700,140	686,437	-13,704
<b>Financial assets</b>			
Cash and accounts receivable	62,626	56,623	-6,003
Foreign exchange accounts	48,950	46,985	-1,965
Loans, investments and advances (net of allowances)	23,748	24,295	547
Total financial assets	135,324	127,903	-7,421
<b>Net debt</b>	564,816	558,534	-6,281
<b>Non-financial assets</b>	54,240	53,161	-1,079
<b>Federal debt (accumulated deficit)</b>	510,576	505,373	-5,203

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